# THE BIG FIVE FALSE BAY MUNICIPALITY

## ANNUAL REPORT 2011/2012

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# CHAPTER 1
# INTRODUCTION AND OVERVIEW

## 1.1. MAYOR'S FOREWORD

It is with great honour that we present the 2011/2012 Annual Report for Big 5 False Bay Municipality which highlights the Municipality's significant stride towards a better life for all communities in Hluhluwe.

One of the smallest Municipalities in the Province and largely dependent on Government grants for survival, we have tried to contribute towards the achievement of the five National Key Performance Areas, i.e. Basic Service Delivery and Infrastructure Development, Social and Local Economic Development, Institutional Development and Transformation, Good Governance and Public Participation, and Financial Management and Viability.

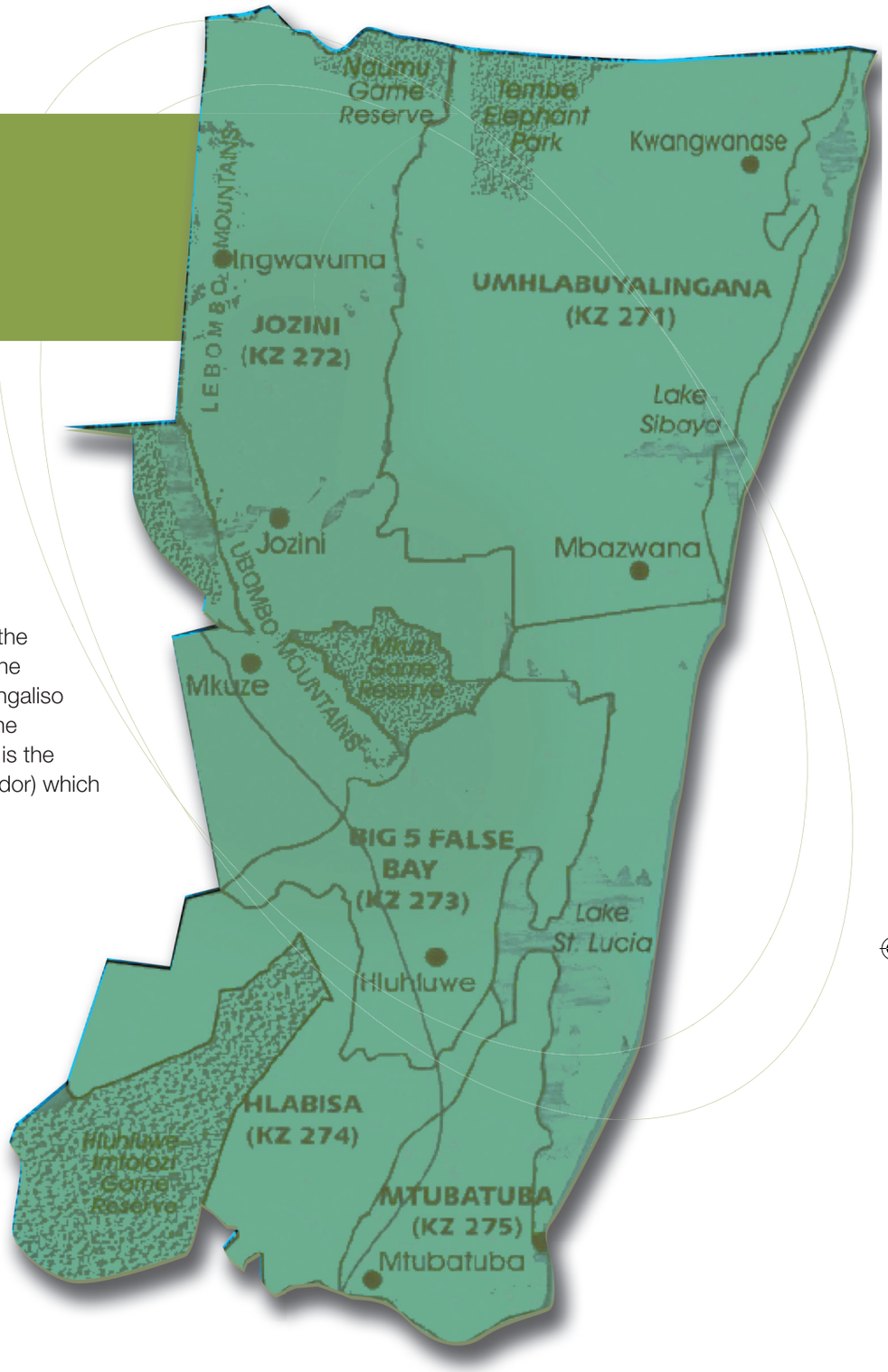
This report presents the institution's achievements and challenges in accelerating and improving service delivery and development in Big 5 False Bay. It is therefore noted that the compilation of the report for 2011/2012 coincides with new management in the following positions: Municipal Manager, Director Community Services, Director Corporate Service and Chief Financial Officer.

### Performance highlights over the review period include:

- Our partnership with Eskom has provided basic service delivery in electrification of three wards namely Makhasa, Mnqobokazi and Nibela which is still in progress.
- Provision of the following community facilities namely Makhasa Community Hall and Qomuluphila Community hall.
- Work in progress construction of Phumlani roads
- The Municipality has prioritised development intervention for sustainable livelihoods among which included youth empowerment in promoting educated citizens through bursaries where 25 students were awarded bursaries to further their studies on various spectra at tertiary institutions.
- The implementation of the capital projects created temporary jobs for the local communities.
- In partnership with Kwa-Zulu Natal's Human Settlement, rural housing projects are in the planning phase, implementing agents have been appointed which will see 3 000 houses built as infill in each of the two traditional authority areas, namely Mnqobokazi and Makhasa.
- Our Municipality has great potential in tourism. We have undeveloped land which needs to be developed along the coast of St Lucia and Sodwana Bay.
- To date we have achieved our goal of establishing a Traffic Unit.
- Our biggest and most significant achievement is the tireless effort of our staff to ensure that our financial records are credible, to enable a favourable audit opinion and improve our governance systems.
- It is with gratitude and appreciation that we recognise the role of officials and councillors for their diligence and hard work thus far.

**"An accountable municipality that provides sustainable service delivery to promote a viable economic environment and improve the quality of lives for the communities."**

## 1.2 OVERVIEW OF THE MUNICIPALITY




### BIG 5 FALSE BAY GEOGRAPHICAL PROFILE

Big 5 False Bay is a small local municipality situated within the Umkhanyakude District in northern KwaZulu-Natal. Easily accessible off the N2 national route, it lies adjacent to the False Bay (western) side of the Isimangaliso Wetland Park (previously known as the Greater St Lucia Wetlands Park) and is the Starting point of the MR4 (LSDI Corridor) which links Hluhluwe to Mozambique.

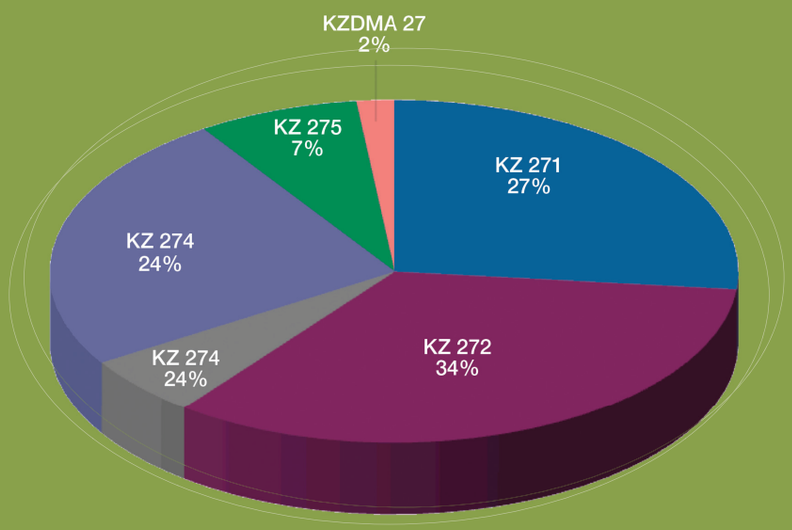
The municipality is one of five local municipalities falling within Umkhanyakude District Municipality in the far North of KwaZulu-Natal Province. The municipality covers approximately 1191 km$^2$ area with only one semi-urban area being Hluhluwe. The municipality is demarcated into four wards and has seven councillors. The municipality comprises three traditional authorities. Hluhluwe is the main town and centre of employment opportunities, shopping and recreational facilities.

The town of Hluhluwe, which contains major shopping and light servicing facilities, as well as the municipal offices, services it. A large proportion of the land is used for agriculture and game lodge activities and is sparsely settled. The north-eastern parts of the municipality are occupied by fairly densely settled rural traditional communities (Makhasa, Mnqobokazi and Nibela).

The Municipality is graded as a Grade one municipality and since its inception in 2000, has financially been burdened by “inherited” debt from the Umsekeli Municipal Support Services (the erstwhile Development & Services Board), which was previously responsible for the Management of Hluhluwe Town and its surrounding Commercial Farm Areas. A massive reduction in the Municipality’s Equitable Share (more than 35%) has caused the funding available for capacity building and capital projects to be drastically reduced. The municipality’s attempts to become less Grant-dependent have therefore also not been successful. Although various attempts have been made to enquire as to the reduction in the Equitable Share, no response has been forthcoming from National Treasury. ❑

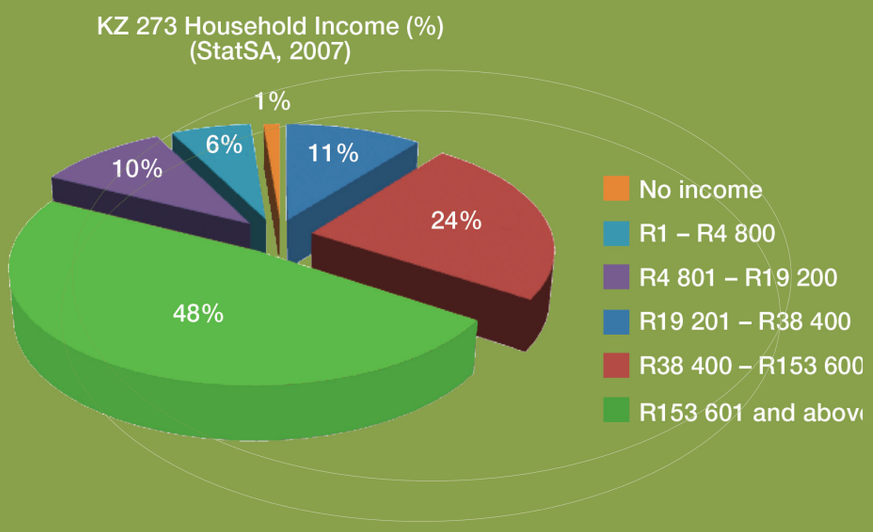
## SOCIO- ECONOMIC PROFILE POPULATION STATISTICS

According to the 2007 Community survey, The Big 5 False Bay Municipality has 34 991 people with 6 657 households; thereby making it the least populated local municipality in the UMkhanyakude District. There is a slight imbalance in terms of gender, with males comprising 16 432 and females 18 558 of the total population. The Big 5 False Bay municipality contributes only 6% towards the total population of UMkhanyakude District Municipality. The contribution of all five local municipalities towards the UMkhanyakude District's total population is outlined alongside.



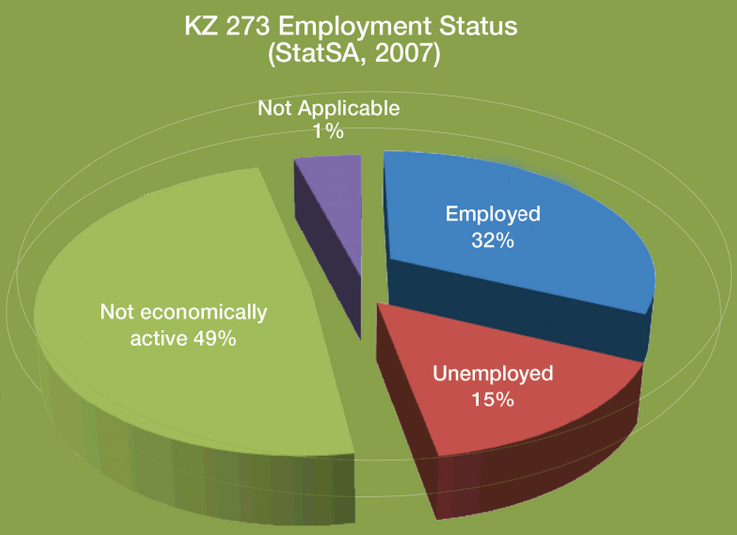

## HOUSEHOLD INCOME

An integral part of the economic structure of an area is the spending power and multiplier effect of spending within the local economy. The table alongside shows the numbers of households and the proportions of all of the households in that area which fall into several income brackets. In Big 5 False Bay, on average, 48% of the households earned between R4 901 and R19 200 in the year 2001,between R408 and R1 600 per month per household.




## EMPLOYMENT STATUS

Almost half (49%) of the total population is economically inactive. 3 013 (15%) are unemployed. A trend consistent in the District indicates that a bulk of those unemployed and not economically active comprises youth. Only 6 330 people (32% percent of the total population) are employed. In comparison to other local municipalities within UMkhanyakude district, Big 5 False Bay has the smallest labour force.



## 1.3 EXECUTIVE SUMMARY

### Vision

"An Accountable municipality that provides sustainable service delivery to promote a viable economic environment and improve the quality of lives for the communities."

### Mission

In light of the vision

"We strive to improve the quality of life for local communities through effective service delivery by providing equitable socio-economic development through the provision of infrastructure and municipal services in an accountable manner while responsive to environmental and climate change"

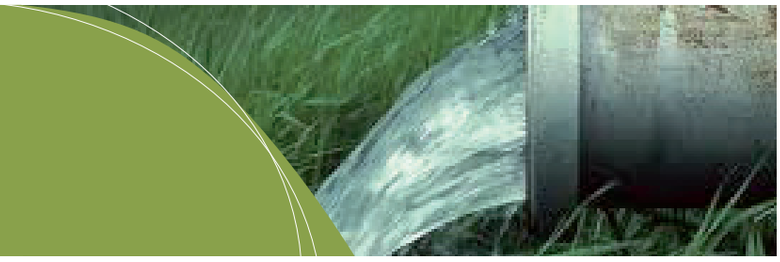
### Our values

- Honesty
- People driven
- Accountability
- Courtesy

### Our development goals

- To create and sustain sufficient capacity for efficient local governance
- To promote equitable access to infrastructure and basic services
- To create an environment conducive to a sustainable social and economic development
- To promote democracy and good governance; and
- To manage and disburse public in an efficient and accountable manner.

# ACCESS TO SERVICES



This section seeks to assess the level of infrastructure provision in Big 5 False Bay. It is crucial to understand the issues of infrastructure in the Municipality so as to be realistic when setting spatial development goals in relation to housing.

## WATER SUPPLY

The information below reflects the percentage distribution of households by type of water source as per 2007 community survey conducted by Stats SA.

| DESCRIPTION | 2001 | 2007 |
|---|---|---|
| Piped water in dwelling | 13.5% | 20.7% |
| Piped water in yard | 13.4% | 9.5% |
| Piped water outside yard | 4.7% | 8.1% |
| Borehole | 25.8% | 10.1% |
| Spring | 7% | 2% |
| Dam/pool | 17.8% | 10% |
| River stream | 11.1% | 2.3% |
| Water vendor | 2.1% | 15% |
| Rain tank | 2.1% | 15% |
| Other | 3.7% | 0.4% |

## SANITATION

The information below reflects the percentage distribution of households by type of toilet facilities, as per the 2007 Community Survey conducted by StatsSA.

| DESCRIPTION | CENSUS (2001) | COMMUNITY SURVEY (2007) |
|---|---|---|
| Flush toilet (connected to sewer) | 21.9% | 24.2% |
| Flush toilet (with septic tank) | 2.8% | 4.0% |
| Dry toilet facility | - | 2.9% |
| Chemical Toilet | 3.0% | 51.7% |
| Pit latrine with ventilation (VIP) | 8.1% | 3.3% |
| Pit latrine without ventilation | 6.2% | - |
| Bucket latrine | 0.7% | 0.5% |
| None | 57.2% | |

## ELECTRICITY

The Eskom coverage indicates than an adequate supply is available to the major town in Big 5 False Bay, which is Hluhluwe town and to the Big 5 False surrounding commercial farmlands. However there are deficiencies in the electrification grid in the deep tribal authority areas. Identified nodal areas are however relatively well served with electricity. According to the census 2001; only 32.6% of the total number of households have access to electricity for lighting. This translates to a 67.4% backlog in terms of electricity provision.

| Municipality | DME, 2008 Total Households | DME, 2008 Household Access to Grid | DME, 2008 Household Access to Grid (%) | DME, 2008 Households below basic level of service/backlogs | DME, 2008 Households below basic level of service/backlogs (%) |
|---|---|---|---|---|---|
| KZ 271 | 28,955 | 1,840 | 6.4% | 27,115 | 93.6% |
| KZ 272 | 37,394 | 5,223 | 14.0% | 32,171 | 86.0% |
| KZ 273 | 6,866 | 2,091 | 30.4% | 4,775 | 69.6% |
| KZ 274 | 29,971 | 11,220 | 37.4% | 18,752 | 62.6% |
| KZ 275 | 8,739 | 7,734 | 88.5% | 1,005 | 11.5% |

# ACCESS TO SERVICES

## ROAD AND TRANSPORT INFRASTRUCTURE ANALYSIS

The Municipality has a short supply of good all-weather roads. This restricts the provision of some services such as waste removal. In addition, access to economic opportunities is also limited. The main problem in Big 5 False Bay is the lack of access experienced by rural communities as rural roads are not in a good condition.

### THE BIG 5 FALSE BAY SWOT ANALYSIS

| STRENGTHS | WEAKNESSES | OPPORTUNITIES | THREATS |
|---|---|---|---|
| Good Leadership | No clear roles and responsibilities. | Agricultural growth | Geographic location |
| Political Stability | No retention Strategy | Fast track the LED Strategy | Access to essential services |
| Strong Relationship with the Political arm | No MFMA implementation plan | Land available for growth | Reliance on grants |
| Good IT Systems | Performance Management System | Growth in revenue bases | Local government functions not properly communicated |
| | Poor recruitment strategy | | Funding |

# CHAPTER 2
# PERFORMANCE HIGHLIGHTS

## BASIC SERVICE DELIVERY

## KPA-INFRASTRUCTURE DEVELOPMENT

In the 2010/2011 IDP under infrastructure development plans, the following were included:

- Child Care Facilities
- Community Halls
- Market Stalls

This resulted in the completion of the following projects prioritised in the integrated development plans. The construction of these projects had a positive impact as it created a lot of job opportunities for the people surrounding the areas.

# CONSTRUCTION

Phumlani Community Hall
(Project No 2008MIGFK273165513)
Front elevation

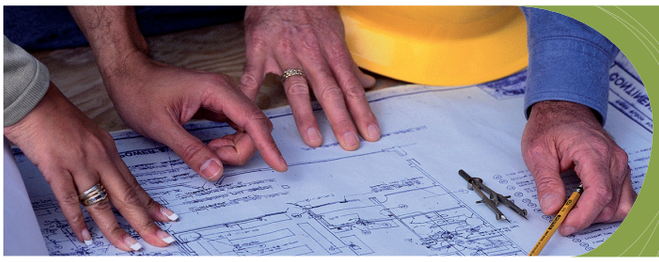
Phumlani Community Hall
Side elevation

Makhasa Community Hall
(Project No 2009MIGFK273165525)

Makhasa Community Hall
(Back elevation)

Makhasa Community Hall (VIP Toilet)

Makhasa Crèche
(Project No 2008MIGFK273165608)



# CONSTRUCTION

Makhasa Crèche VIP Toilets

Mnqobokazi Market Stalls VIP Toilets

Mnqobokazi Market Stalls
(Project No  2008MIGFK273165721)

Ezimpondweni Market Stalls
(Project No 2008MIGFK273165955)

Ezimpondweni Market Stalls VIP Toilets

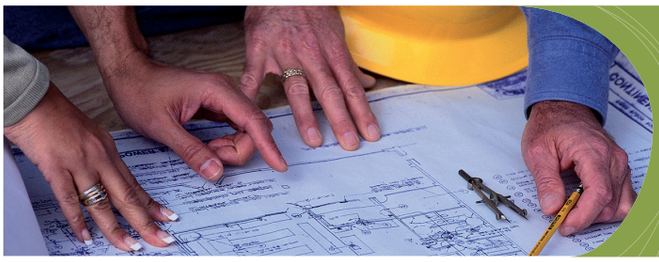
Nibela Community Hall
(Project No 2009MIGFK273185089)

# CONSTRUCTION

Phumlani Crèche
(Project No 2009Migfk273172011)

Bhekani Crèche
(Project No 2009MIGFK273192774)

Bhekani Crèche VIP Toilets



# KPA - SOCIAL DEVELOPMENT

Under the Social Development KPA the following pictures reflect the 2011/2012 achievements in partnership with sector departments.

Clean-up campaign in partnership with Hluhluwe Chamber of Business, Environmental Health Department, Community and other stakeholders at Phumlani Location and Hluhluwe Town.

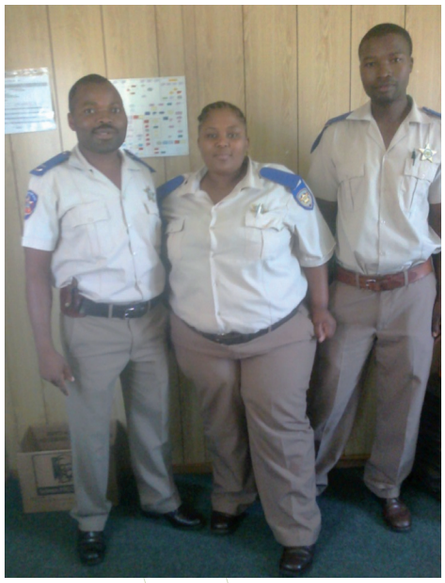
SALGA Games – 2012

World AIDS Day in partnership with Umkhanyakude District and the Department of Health

Mayor Cllr C C Gumede handing over sewing material and machine to Nibela Women's Project during Ingoma event on the 24th November 2012, where she also handed over R30 000 to the groups of The Big 5 Siyayishaya Ingoma Association.

Information Desk issuing bursary application forms and career guidance to the youth. Prize-giving to the winning soccer team during the June 16 Youth Celebration Event held on 30 June 2012.

## ESTABLISHMENT OF A TRAFFIC DEPARTMENT



### Challenges

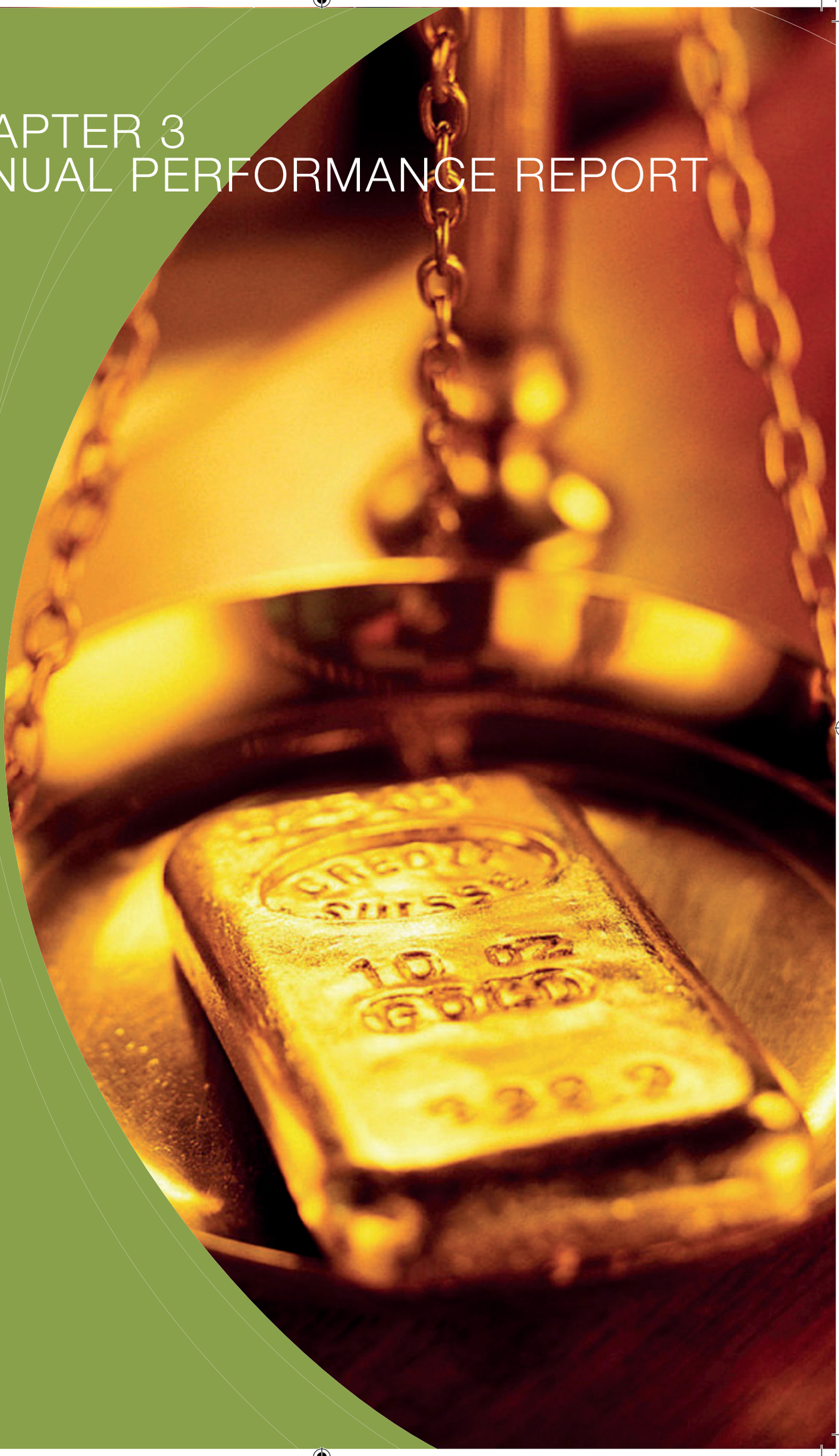
Based on the targets achieved 2011/2012 was a challenging year. The performance targets were not all achieved as planned for 2011/2012. The following challenges are highlighted

- Capacity building for all role players of the performance management system
- Difficulty in getting members to serve on the performance evaluation, as a result reviews could not be conducted as scheduled.
- Delay in the IDP process in particular public participation meetings which further delayed the processes involved in the planning phase of the PMS.
- Status of the employments contracts for Senior Management
- Political transition

### Recommendations

- Capacity building of all role players in Performance Management
- Continuous monitoring of PMS by Internal Audit unit to ensure that it is still compliant, functional and reliable
- Strengthening of Oversight role by the relevant structures and lastly
- Full Implementation of PMS framework

# CHAPTER 3
# ANNUAL PERFORMANCE REPORT



| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | Q3 | |
| | | | | Target | Actual | Target | Actual | Target |
| To promote participatory and transparent governance for the community, service providers and investors to function in the municipality. | Develop a new IDP (2012/13). | Newspaper advertisement of IDP process plan 2012/2013 by 31 August 2011. | 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | | | |
| | | IDP process plan and council resolution for approved 2012/13 IDP process Plan by 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | | | |
| | | Newspaper advertisement for IDP process plan 2012/2013 by 31 August 2011 | 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | | | |
| | | Acknowledgement and comments for submission of 2012/2013 IDP process plan to CoGTA by 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | | | |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Target | Actual | Target | Actual | |
| | | Council approved 2012/13 IDP by 30 June 2012 30 Jun 2011 | 30 June 2011 | | | | | | | 30 June 2011 | 30 June 2011 | |
| | Strengthen the functioning of the Performance Audit Committee. | Minutes 2 meetings held biannually. | 2 | | | 1 | 1 | 1 | 1 | 1 | 1 | Target achieved |
| | Attendance of Municipal Managers Forums | Quarterly minutes of meetings for Municipal Manager's forum | 4 | 1 | 2 | 1 | 2 | 1 | - | 1 | - | Target achieved |
| To establish and maintain on-going intergovernmental relations among and between the UDM and local councils, service providers and other government and non-government organisations | To ensure effective management of the municipality and its functionaries | Proof of attendance (minutes) of the scheduled quarterly AC meetings and Special AC meetings attended | 4 | 1 | 1 | 1 | - | 1 | - | 1 | | Target achieved |
| To ensure progressive compliance with institutional and governance requirements | Oversight report and Annual Report tabled at Council for approval without reservation | Council approval for oversight report by 31 March 2012 | 31 Mar 2012 | | | | | 31 Mar 2012 | 31 Mar 2012 | | | Target achieved |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Target | Actual | Target | Actual | |
| | Draft Annual Report presented to the Mayor for tabling to Council | 2010/11 draft AR tabled by Mayor to Council by 31 Jan 2011 | 31 Jan 2011 | | | | | 31 Jan 2011 | 31 Jan 2011 | | | Target achieved |
| | Strengthen the functioning of Internal Audit | Submission of quarterly reports to audit committee | 4 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | |
| | Strengthen Participation Traditional Council in the IDP, PMS & Budget road show. | Three mini road shows to Traditional authorities on IDP/,PMS & Budget | 3 | | | 1 | 0 | 1 | 0 | 1 | 0 | |
| To maintain good co-operation and understanding between and amongst management and staff | Organisational staff meetings | Quarter 2, 3 & 4 approved minutes of organisational staff meetings | 3 | | | 1 | 0 | 1 | 0 | 1 | 0 | |
| | Management Committee (MANCO) meetings | 10 approved monthly minutes of MANCO | 10 | 2 | 1 | 2 | 1 | 3 | - | 3 | | |
| Promote Community Participation | Facilitate establishment of new ward committees | Council approval for established ward committees in 4 wards by 31 Aug 2011. | 4 | 4 | 4 | | | | | | | Target achieved |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Target | Actual | Target | Actual | |
| | Staging of IDP meetings | Four (4) IDP RF meetings by 30 June 2012 | 4 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 0 | Due to delay in the IDP process four meetings could not be held |
| | | Four (4) IDP SC meetings by 30 June 2012 | 4 | 1 | 1 | 1 | | 1 | 2 | 1 | 1 | Not all meetings were held as scheduled due to delay in IDP process but the target annual target was achieved |
| | Staging of IDP/Budget consultative meetings | Four (4) meetings by 30 June 2012 | 4 | 1 | | 4 | 3 | 0 | 1 | 1 | | Target achieved |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Target | Actual | Target | Actual | |
| To strengthen organisational performance management system for improved service delivery and accountability to the communities | Review OPMS | Council adopted reviewed OPMS by 30 June 2012 30 Jun 2012 | 30 Jun 2012 | | | | | | | 30 Jun 2012 | 30 Jun 2012 | Target achieved |
| | Strengthen Performance, M & E unit | Revised Performance, M & E unit submitted to MANCO by 30 June 2012. | 30 Jun 2012 | | | | | | | 30 Jun 2012 | | |
| | To assess performance of the service providers on the following services: Internal Audit | Submission of quarterly performance reports to Audit committee & Council | 4 | 1 | 1 | 1 | - | 1 | - | 1 | - | |
| To effectively build and maintain institutional capacity | Establish Risk Assessment committee | Council approval by 31 Dec 2011 | 31 Dec 2011 | | | 31 Dec 2011 | | | | | | The Risk assessment committee was established in the 3rd quarter |
| | Annual alignment of departmental structure with IDP | Submission of departmental structure to MANCO by 28 Feb 2012 | 28 Feb 2012 | | | | | 28 Feb 2012 | | | | |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Target | Actual | Target | Actual | |
| To effectively build and maintain institutional capacity | To ensure on-going implementation and review of the Performance Management System | Performance contracts of all Section 57 Managers signed by 31 July 2011 | 31 July 2011 | 31 July 2011 | 31 July 2011 | | | | | | | Target achieved |
| | | 2011/12 Assessment of Section 57 Managers biannually | 2 | | | 1 | - | | | 1 | - | |
| | To ensure effective management of the municipality and its functionaries | Proof of attendance (minutes) of the scheduled quarterly AC meetings and Special AC meetings attended | 4 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | - | |
| | To ensure progressive compliance with institutional and governance requirements | Departmental Business Plan signed by the Directors and approved by MM by 31 Jul 2011 | 31 Jul 2011 | 31 Jul 2011 | | | | | | | | |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Target | Actual | Target | Actual | |
| To ensure effective management of the municipality and its functionaries | Action Plan to address Auditor General Queries | All queries addressed efficiently and effectively as stated in the Action Plan & as per time frames by 30 June 2012 | 30 June 2012 | | | | | | | 30 June 2012 | 30 June 2012 | Target achieved |
| | Draft Adjustment Budget 2009/10 submitted to Council | Draft Adj. Budget submitted Council by 01 Feb 2012 | 01 Feb 2012 | | | | | 01 Feb 2012 | 01 Feb 2012 | | | Target achieved |
| | 2012/13 Budget submitted to Council, National Treasury and Provincial Treasury | Proof of submission of 2012/13 Budget to Council, NT and PT by 30 June 2012 | 30 June 2012 | | | | | | | 30 June 2012 | 30 June 2012 | Target achieved |
| | 4 quarterly Internal Audit Reports produced and considered at the AC meeting | Minutes of audit committee meeting with Internal Audit reports. | 4 | 1 | 1 | 1 | - | 1 | 1 | 1 | 1 | |
| To ensure progressive compliance with institutional and governance requirements | 2010/11 Annual Financial Statements ready for audit by 30 August as per MFMA | Legally compliant 2010/11 AFS submitted to Council, AC and then to AG and Council by the 31 August 2011 | 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | | | | | | | Target achieved |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS/ CORRECTIVE MEASURES |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Target | Actual | Target | Actual | |
| | Ensure timeous submission of Sect 72 report annually | Sect 72 report approved by Council by 25 January 2012 | 25 Jan 2012 | | | | | 25 Jan 2012 | 25 Jan 2012 | | | Target achieved |
| | Submission of DORA report | Proof of submission of 12 monthly Dora Reports to National Treasury and other relevant | 12 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | Target achieved |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Target | Actual | Target | Actual | |
| Prevent corruption | Review an anti-corruption strategy by 31 Oct 2011 | Council approved anti-corruption strategy by 31 Oct 2011 | 31 Oct 2011 | | | 31 Oct 2011 | 31 Oct 2011 | | | | | Target achieved |
| Promote public participation | Establishment of new ward committees in four(4) wards by 31 Aug 2011 | Council approved ward committees in 4 wards by 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | | | | | | | Target achieved |
| | Training and Induction of new council and ward committees | Four (4) trainings by 30 June 2012 | 4 | | | | | | | 4 | 4 | Target achieved |
| | Attendance of IDP-RF meetings | Four(4) meetings attended by 30 June 2012 | 30 June 2012 | 1 | - | 1 | 1 | 1 | 1 | 1 | - | Due to delay in the IDP process four meetings could not be held |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Actual | Target | Target | Actual | |
| Ensure the functionality of the LED unit | Fill the vacant post of an LED Manager | Appointment of an LED Manager by 31 August 2011 | 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | | | | | | | Target achieved |
| | Strengthen the functionality of LED Forum meetings | Four (4) meetings by 30 June 2012 | 4 | 1 | - | 1 | - | 1 | 1 | 1 | - | |
| | Development of business of programs identified in the LED strategy | 3 Business plans by 31 March 2012 | | | | | | | | | | |
| | Implementation of programs in the LED Plan | Three reports to MANCO & Council by 30 June 2012. | | | | | | | | | | Target achieved reports could not all be submitted to MANCO |
| To ensure creation of job opportunities. | Creation of job opportunities through LED projects | Fifty (50) job created by 30 June 2012 | | | | | | | | 50 | 80 | Target exceeded as 80 jobs were created |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Actual | Target | Target | Actual | |
| To ensure creation of job opportunities. | Creation of jobs through EPWP | Fifty (50) jobs created by 30 June 2012. | 50 | | | | | | | 50 | 50 | |
| To promote empowerment of the following prioritised groups: youth, women, disabled | To promote empowerment of disadvantaged women to access funding for investment in Tourism, Agriculture and craft. | Quarterly Reports to MANCO on intervention in tourism, agriculture and craft between the municipality and funders | 3 | 1 | | 1 | | 1 | 1 | 1 | 1 | MANCO could not seat as scheduled |
| | To promote empowerment of women on subsistence farming. | Quarterly Reports to MANCO | 4 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | - | MANCO could not seat as scheduled and progress reports were submitted to council |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Actual | Target | Target | Actual | |
| | To assess performance of the service providers in respect of the following services: HR | Submission of 2 reports on the performance of the service to MANCO by 30 June 2012. | 2 | | | 1 | 2 | | | 1 | | Target Achieved |
| To effectively build and maintain institutional capacity | Develop Risk Management policy | Council approval by 31 Dec 2011. | 31 Dec 2011 | | | 31 Dec 2011 | 31 Dec 2011 | | | | | Risk assessment policy will be developed during 2012/2013 FY |
| | Induct all employees on policies and procedures | Report to MANCO by 31 Dec 2011 | 31 Dec 2011 | | | 31 Dec 2011 | 31 Dec 2011 | | | | | Target Achieved |
| | | Attendance registers for induction on policies and procedures by 31 Dec 2011. | 31 Dec 2011 | | | 31 Dec 2011 | 31 Dec 2011 | | | | | Target Achieved |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Actual | Target | Target | Actual | |
| | Induction of new council, ward committees. | Four trainings coordinated by 30 June 2012. | 4 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | Target achieved |
| | Implementation of Workplace Skill Plan | Fifty four staff trained as per WSP 2011/2012 | 54 | 15 | | | | | | | | |
| To provide effective and efficient Human Resource Management system | Develop a retention strategy | Council-approved retention strategy by 30 Nov 2011 | | | | 1 | 1 | | | | | Target achieved |
| | Develop business plan for development of HR strategy | Submission of business plan to CoGTA by 30 Dec 2011. | 31 Dec 2011 | | | 31 Dec 2011 | 31 Dec 2011 | | | | | |
| | | Council approved HR strategy by 31 Dec 2011 | 31 Dec 2011 | | | 31 Dec 2011 | - | | | | | |
| | Annual alignment of organisational structure with IDP | Council approved organisational structure by 31 March 2012 | 31 March 2012 | | | | | 31 March 2012 | - | | | Organisational structure was adopted in July 2012 |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Actual | Target | Target | Actual | |
| To provide effective and efficient Human Resource Management system | Develop Workplace Skills Plan | Conduct Skills audit by 31 March 2012 | 31 March 2012 | | | | | 31 March 2012 | - | | | |
| | | Prioritising of trainings by 31 April 2012 | 31 April 2012 | | | | | 31 April 2012 | - | | - | |
| | | WSP to be considered by Local Labour Forum by 30 May 2012 | 30 May 2012 | | | | | | | 30 May 2012 | - | |
| | | Council-approved WSP by 30 June 2012. | 30 June 2012 | | | | | | | 30 June 2012 | 30 June 2012 | Target achieved |
| | Review employment equity plan | Staff meeting by 30 Nov 2011 | | | | 1 | 1 | | | | | |

| STRATEGIC OBJECTIVES | MEASURABLE OBJECTIVE/ OUTPUT (Activity) | PERFORMANCE MEASURES /INDICATOR | Year under review | | | | | | | | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Annual Target | Q1 | | Q2 | | Q3 | | Q4 | | |
| | | | | Target | Actual | Target | Actual | Actual | Target | Target | Actual | |
| To provide effective and efficient Human Resource Management system | | Council approved EEP by 31 Dec 2011 | 31 Dec 2011. | | | 31 Dec 2011. | | | | | | |
| | | Submission of the EEP to DoL by 15 Jan 2012 | 15 Jan 2012 | | | | | 15 Jan 2012 | - | | | |
| | Develop a recruitment policy | Council-approved recruitment policy by 31 Dec 2011 | | | | 1 | - | | | | | |
| | Filling of key posts. | One post of the LED Manager filled by 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | 31 Aug 2011 | | | | | | | Target achieved |

# CHAPTER 4
# REPORT OF THE AUDIT COMMITTEE

Big 5 False Bay Municipality

# REPORT OF THE AUDIT COMMITTEE for the year ended 30 June 2012

## 4.1. INTRODUCTION

4.1.1 The Big 5 False Bay Municipality established its Audit Committee in March 2011 in compliance with section 166 of the Municipal Finance Management Act, No. 56/2003 (MFMA).

4.1.2 The Audit Committee also functions as the Performance Audit Committee in terms of section 14(2) (c) of the Municipal Planning and Performance Management Regulations, 2001.

4.1.3 We present our report for the year ended 30 June 2012.

## 4.2. STATUTORY REQUIREMENTS OF THE AUDIT COMMITTEE

4.2.1 Section 166 provides that the Audit Committee is an independent advisory body which advises the municipal council, the political office-bearers, Accounting Officer and the management staff of the municipality.

4.2.2 The Committee advises the above named structures on the following:-

- Internal financial control and internal audits
- Risk management
- Accounting policies
- Adequacy, reliability and accuracy of financial reporting and information
- Effective governance
- Compliance with the Municipal Finance Management Act No. 56 of 2003, the annual Division of Revenue Act and any other applicable legislation and
- Any other issues referred to it by the municipality.

4.2.3 In addition, the Committee must review the annual Financial Statements to provide Council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with applicable municipal legislation.

## 4.3. AUDIT COMMITTEE'S RESPONSIBILITIES

4.3.1 The Committee has complied with its responsibilities arising from section 166(2) (b) of the MFMA and other legislation.

4.3.2 The Committee has also complied, as far as possible; with its responsibilities set out in its Council's approved terms of reference (Audit Committee Charter) and has discharged its responsibilities contained therein.

## 4.4. AUDIT COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

4.4.1. Composition

The Committee consists of the following members:

(See overleaf)

| Member's Name | Designation | Area of specialization |
|---|---|---|
| Adv. T.H. Mnyandu | Chairperson | Legal, governance and General compliance |
| Mr B. M. Thusi | Member | |
| (CFO-Hlabisa Municipality) | General Financial Management, Cash Flow and Internal Controls | |
| Mr T. V. Mdluli | Member | |
| (CFO-Jozini Municipality) | Financial Accounting Standards, Financial Reporting and Risk Management | |
| Mr W.D. Eckersley | Member | General Financial Management |
| Dr. B.V. Thabethe | Member | Performance Management |

4.4.2. Meetings and Attendance

The meetings were held and attended as follows:

| Member | Meetings Dates | | | |
|---|---|---|---|---|
| | 23/8/2011 | 29/8/2011 | 21/2/2012 | 6/6/12 |
| Adv. T.H. Mnyandu | ✓ | ✓ | ✓ | ✓ |
| Mr B. M. Thusi | Absent<br>Apology received | ✓ | ✓ | Absent<br>Apology received |
| Mr T. Mdluli | ✓ | Absent | ✓ | Absent |
| Mr W.D. Eckersley | Absent<br>Apology received | Absent<br>Apology received | ✓ | ✓ |
| Dr. B.V. Thabethe | ✓ | ✓ | ✓ | ✓ |

4.4.3. Attendance by Officials and Internal Auditors

The Municipal Manager, Heads of all Departments and Internal Auditors attended the Committee meetings.

4.4.4. Attendance by the Mayor and Chairperson of MPAC

a) It was resolved to invite the Mayor and Chairperson of MPAC to attend the meetings of the Audit Committee as per the direction of the Auditor General

b) The Mayor and MPAC Chairperson were invited to attend the meeting of the 6th of June 2012 and were present.

## 4.5. THE EFFECTIVENESS OF INTERNAL AUDIT

4.5.1 The Internal Audit has been out sourced to Price Water Coopers.

4.5.2 The Committee has evaluated the independence, effectiveness and performance of the internal audit in compliance with its mandate.

4.5.3. The Internal Audit Charter and Internal Audit Strategy Plan which define the roles and responsibilities of the Internal Auditors have been drawn, submitted to the Audit Committee and approved.

4.5.4 The Committee has satisfied itself that the Internal Audit function has the necessary resources, budget, standing and authority with the Municipality to discharge its function.

4.5.6 The Internal Audit reported functionally to the Audit Committee and had unrestricted access to the Audit Committee Chairman.

## 4.6. EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

The system of internal control applied by the Municipality over financial risk and risk management has not been entirely effective and adequate.

In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audits provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

It was noted in the Internal Audit Report that the system of internal control was inadequate and ineffective for the year under review. Several deficiencies in the system of Internal Control were reported by the Internal Auditors. In most cases matters previously reported were not fully or satisfactorily addressed.

The areas of concern which were highlighted include the following:

- Payments not made within 30(thirty) days upon receipt of invoice.
- No evidence available to validate the achievement of individual key performance indicators.
- Payment vouchers not approved by Municipal Manager.
- Documentation pertaining to payments not available.
- No minimum number of quotations attached to payment vouchers.
- Creditor's reconciliations not performed.
- Invoices not signed as evidence of receipt of goods/services.
- General ledger not updated with grant payments.
- No reconciliation maintained of fuel and mileages of vehicles.
- Organisational performance not evaluated.
- Contracts not reviewed for legal compliance.

The Risk Assessment was performed with the assistance of KZN Provincial Treasury however risk mitigating controls were not fully implemented.

## 4.7. NON-COMPLIANCE WITH APPLICABLE LEGISLATION

**Strategic planning and performance management**

4.7.1 The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan and take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required by section 41 of the Municipal Systems Act.

**Budget**

4.7.2 The accounting officer did not assess the first half of the financial year performance of the municipality, as required by section 72(1) of the Municipal Finance Management Act.

**Annual financial statements, performance and annual report**

4.7.3 The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 122 of the MFMA.

4.7.4 Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

4.7.4 The annual performance report for the year under review does not include a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1) of the Municipal Systems Act.

4.7.5 The accounting officer did not make the 2010/11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the Municipal Finance Management Act.

**Expenditure management**

4.7.6. The accounting officer did not take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

4.7.7. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

## 4.8. REVIEW OF PERFORMANCE MANAGEMENT SYSTEM

4.8.1. An evaluation panel for Section 57 staff was established.

4.8.2. Although the Chairperson of the Audit Committee attended the evaluation meetings in August 2012 and September 2012, the process has not been finalized owing to mainly outstanding supporting documents.

## 4.9. RECOMMENDATIONS

4.9.1 Council should monitor progress made with management's action plan to address the Audit findings on a monthly basis.

4.9.2 Council should ensure that quarterly reviews of section 57 employees are conducted on a timely basis.

4.9.3 Council should ensure that quarterly performance reports are accurate, complete and reliable and are submitted in time.

4.9.4 Council should allocate adequate resources for the finance section to comply with or cope with the demands required by a host of financial obligations.

4.9.5) The Risk Management Committee should be established which will put in place effective strategies and plans for risk assessment and management by all directorates.

## 4. 10. CONCLUSION

The Audit Committee accepts the conclusions of the Auditor General on Annual Financial Statements for the year ended 30 June 2012 and recommends that the Audited Financial Statements be adopted by Council.

Thanks

.....

Adv. T.H. Mnyandu

**Chairperson: Audit Committee**

# CHAPTER 5
# HUMAN RESOURCES AND OTHER ORGANISATIONAL MANAGEMENT

# ORGANISATIONAL MANAGEMENT

In accordance with legislation, The Big 5 False Bay municipality has developed an organisational structure which has been adopted by council. The managerial structure has been developed in a manner that would enable the Municipality to deliver on its priorities and objectives, as set out in the Municipality's Integrated Development Plan. The Municipality comprises of the following four (4) departments: The Office of Municipal Manager, Planning, Development & Technical Services Department, Corporate & Community Services Department, Financial Services Department.

## 5.1 HIGH LEVEL ORGANISATIONAL STRUCTURE

## 5.2 EMPLOYMENT EQUITY AND SKILLS DEVELOPMENT

In terms of section 13(1) of the Employment Equity Act, Act No. 55 of 1998, the Municipality is required to achieve employment equity by ensuring that affirmative action is implemented which targets mainly the designated groups. The Big 5 False Bay Municipality has developed and implemented the Employment Equity Plan, which reflects the significant progress the Municipality has achieved thus far, and actions to address challenges relating to enhancing demographic representatives, skills development, diversity management and organisational culture assessment.

The following table illustrates the workplace demographics for the year under review.

| | Male | | | | Female | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Work Population | African | Coloured | Indian | White | African | Coloured | Indian | White | Total |
| Number Of Employees | 32 | 0 | 0 | 0 | 20 | 0 | 0 | 1 | 53 |
| Percentage | 60% | 0 | 0 | 0 | 38% | 0 | 0 | 2% | 100% |

The profile of the Municipality by occupational category for the financial year 2011/2012 is:

| | Male | | | | Female | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | African | Coloured | Indian | White | African | Coloured | Indian | White | Total |
| Legislatures, Senior Officials and Managers | 6 | 0 | 0 | 0 | 3 | 0 | 0 | 1 | 10 |
| Officers | 6 | 0 | 0 | 0 | 4 | 0 | 0 | 0 | 10 |
| Elementary Occupations | 21 | 0 | 0 | | 12 | 0 | 0 | 0 | 33 |
| Total Permanent | 25 | 0 | 0 | 0 | 14 | 0 | 0 | 0 | 39 |
| Total Non Permanent | 7 | 0 | 0 | 0 | 6 | 0 | 0 | 1 | 14 |

## 5.3. STAFFING INFORMATION

### Remuneration of Councillors

The remuneration of Councillors is determined in terms of the Remuneration of Public Office Bearer's Act, Act No. 20 of 1998 and the Local Government: Municipal Finance Management Act, Act No. 56 of 2003.

| COUNCILLORS | AMOUNT |
|---|---|
| Mayor | R 283 267.92 |
| Ordinary Councillors | R 1 146 515.10 |
| Total | R 1 429 783, 00 |

Remuneration of Councillors 2011/2012

## Remuneration of Senior Management

| SENIOR MANAGEMENT | AMOUNT |
|---|---|
| Municipal Manager | R 717 010, 00 |
| Chief Financial Officer | R 788 026, 00 |
| Technical/ Planning Director | R 671 026, 00 |
| Corporate | R 713 769,00 |
| Total | R 2 889 922, 00 |

Remuneration of Senior Managers 2011/2012

# CHAPTER 6

# AUDITED FINANCIAL STATEMENTS AND RELATED FINANCIAL REPORTING

## 6.1 REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON BIG 5 FALSE BAY MUNICIPALITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

6.1.1. I have audited the financial statements of the Big 5 False Bay Municipality set out on pages … to …, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### Accounting officer's responsibility for the financial statements

6.1.2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor-General's responsibility

6.1.3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

6.1.4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6.1.5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## Basis for Qualified Opinion

**Property, plant and equipment**

6.1.6. I was unable to obtain sufficient appropriate audit evidence to confirm the valuation and allocation of property, plant and equipment stated at R13,975 million in the financial statements. I was unable to confirm the valuation and allocation of the property, plant and equipment by any alternate means possible.

6.1.7. I was unable to obtain sufficient appropriate audit evidence to confirm the valuation and allocation of, and rights and obligation pertaining to, land stated at R28,163 million in the financial statements. I was unable to confirm the valuation and allocation of, and rights and obligations pertaining to, land by any alternate means possible.

## Leases

6.1.8. I was unable to obtain sufficient appropriate audit evidence to support the balance of R1,294 million disclosed under operating leases in note 25 to the financial statements. I was unable confirm the existence, completeness, valuation and allocation of, and obligations pertaining to this amount by any alternate means possible.

## Qualified opinion

6.1.9. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Big 5 False Bay Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## Emphasis of matters

6.1.10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Restatement of corresponding figures

3.1.11. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the municipality at, and for the year ended, 30 June 2011.

## Financial sustainability / going concern

6.1.12. While the municipality has prepared financial statements on a going concern basis there are a number of indicators that its financial sustainability is under threat.

- The municipality's current liabilities exceed their current assets by R1,760 million.
- The unspent grants concomitant assets (investments and cash and bank) do not sufficiently support the existence of grants with a difference of R1,146 million.

## Irregular expenditure

6.1.13. As disclosed in note 34 to the financial statements, irregular expenditure amounting to R851 791 was incurred as a result of the contravention of SCM legislation.

## Additional matter

6.1.14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## Unaudited supplementary schedules

6.1.15. The supplementary information set out on pages … to … does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

# REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

6.1.16. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

## Predetermined objectives

6.1.17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages … to … of the annual report.

6.1.18. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

6.1.19. The material findings are as follows:

## Usefulness of information

### Presentation

6.1.20. Improvement measures in the annual performance report for a total of 100% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

## Reliability of information

### Validity

6.1.21. The FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary

to satisfy myself as to the validity of the actual reported performance relevant to 71% of the objective to ensure the provision, upgrading and maintenance of infrastructure and services to address backlogs.

## Additional matter

6.1.22. I draw attention to the following matters below. This matter does not have an impact on the predetermined objectives audit findings reported above.

## Achievement of planned targets

6.1.23. Of the total number of 130 planned targets, 71 were not achieved during the year under review. This represents 55% of total planned targets that were not achieved during the year under review.

## Compliance with laws and regulations

6.1.24 I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

## Strategic planning and performance management

6.1.25. The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan and take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required by section 41 of the MSA.

## Budget

6.1.26. The accounting officer did not assess the first half of the financial year performance of the municipality, as required by section 72(1) of the MFMA.

## Annual financial statements, performance and annual report

6.1.27. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 122(1) of the MFMA.

Material misstatements of non-current assets, current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

6.1.28. The annual performance report for the year under review does not include a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1) of the MSA.

6.1.29. The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.

## Expenditure management

6.1.30. The accounting officer did not take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

6.1.31. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

## Internal control

6.1.32. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

## Leadership

6.1.33. Management have not exercised oversight responsibility over financial and performance reporting, compliance with laws and regulations and internal control. Actions are not taken to address risks relating to the achievement of complete and accurate financial reporting and to mitigate the risk resulting in non-compliance with regulatory and reporting requirements.

## Financial and performance management

6.1.34. Systems are not appropriate to facilitate the preparation of quality financial statements, resulting in material corrections being recommended as a result of audit findings. Delays were experienced in obtaining information requested and responses to queries, resulting in information and responses not being provided within the time line agreed upon in the engagement letter. Internal controls were not developed to prevent, detect and correct non-compliance and irregular and fruitless and wasteful expenditure.

## Governance

6.1.35. The municipality did not conduct a risk assessment as required by the MFMA, resulting in a number of control deficiencies being identified during the audit.

Auditor - General

AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

**Pietermaritzburg**
**30 November 2012**

Big 5 False Bay Municipality

# ANNUAL FINANCIAL STATEMENTS

## for the year ended 30 June 2012

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# ABBREVIATIONS

## Abbreviations

| | |
|---|---|
| **COID** | Compensation for Occupational Injuries and Diseases |
| **CRR** | Capital Replacement Reserve |
| **DBSA** | Development Bank of South Africa |
| **SA GAAP** | South African Statements of Generally Accepted Accounting Practice |
| **GRAP** | Generally Recognised Accounting Practice |
| **GAMAP** | Generally Accepted Municipal Accounting Practice |
| **INEG** | Integrated National Electrification Grant |
| **IAS** | International Accounting Standards |
| **IMFO** | Institute of Municipal Finance Officers |
| **IPSAS** | International Public Sector Accounting Standards |
| **ME's** | Municipal Entities |
| **MEC** | Member of the Executive Council |
| **MFMA** | Municipal Finance Management Act |
| **MIG** | Municipal Infrastructure Grant (Previously CMIP)MIG Municipal Infrastructure Grant (Previously CMIP) |

# GENERAL INFORMATION

## Mayoral committee

| | |
|---|---|
| Mayor | CC Gumede |
| Councillors | ZM Mokeona |
| | MS Msane |
| | NR Bukhosini |
| | CT Khumalo |
| | FZ Zulu |
| | N Thethwayo |
| Grading of local authority | Low Capacity Municipality |
| Accounting Officer | AM Dhlomo |
| Auditors | The Auditor-General<br>Private Bag X9034<br>PIETERMARITZBURG<br>3200 |
| Attorneys | Duvenage Incorporated<br>Old Main Road<br>Hluhluwe<br>3960 |
| Chief Finance Officer (CFO) | MSI Mkhwanazi |
| Business address | 163 Zebra Street<br>Hluhluwe<br>3960 |
| Postal address | P.O BOX 89<br>Hluhluwe<br>3960 |
| Bankers | First National Bank of South Africa |

## ACCOUNTING OFFICER'S APPROVAL

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003) to maintain adequate accounting records and is responsible for *content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that financial statements fairly represent the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the year ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognized Accounting Practices (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgment and estimates. The accounting officer acknowledges that he is ultimately responsible for the system of internal and financial controls established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is the identification, assessment, management and monitoring of all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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AM Dhlomo
Accounting Officer

# STATEMENT OF FINANCIAL POSITION

## STATEMENT OF FINANCIAL POSITION

| Figures in Rand | Note(s) | 2012 | Restated 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Receivables from exchange transactions | 4 | 6,785,320 | 3,874,236 |
| VAT receivable | 5 | 1,755,075 | 993,348 |
| Cash and cash equivalents | 2 | 407,476 | 1,251,166 |
| Short Term Investments | 3 | 981,708 | 674,754 |
| | | **9,929,579** | **6,793,504** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 18 | 94,740,547 | 47,656,576 |
| Intangible assets | 19 | 313,514 | 315,073 |
| | | **95,054,061** | **47,971,649** |
| Non-Current Assets | | 95,054,061 | 47,971,649 |
| Current Assets | | 9,929,579 | 6,793,504 |
| **Total Assets** | | **104,983,640** | **54,765,153** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Provisions | 20 | 1,417,874 | 1,749,568 |
| Unspent conditional grants and receipts | 22 | 2,536,157 | 1,803,175 |
| Payables from exchange transactions | 21 | 7,736,108 | 8,393,191 |
| | | **11,690,139** | **11,945,934** |
| Non-Current Liabilities | | - | - |
| Current Liabilities | | 11,690,139 | 11,945,934 |
| **Total Liabilities** | | **11,690,139** | **11,945,934** |
| Assets | | 104,983,640 | 54,765,153 |
| Liabilities | | (11,690,139) | (11,945,934) |
| **Net Assets** | | **93,293,501** | **42,819,219** |
| **Accumulated surplus** | | **93,293,501** | **42,819,219** |

## STATEMENT OF FINANCIAL PERFORMANCE

| Figures in Rand | Note(s) | 2012 | 2011 |
|---|---|---|---|
| REVENUE | | | |
| Property rates | 6 | 5,169,761 | 3,957,330 |
| Rates Penalties | 10 | 994,896 | 691,334 |
| Service charges | 7 | 1,020,336 | 1,237,384 |
| Rental of facilities and equipment | 8 | 129,540 | 148,626 |
| Interest received - External investment | | 9 178,102 | 192,246 |
| Fines | | 31,231 | 28,808 |
| Government grants & subsidies | 11 | 29,746,209 | 21,201,822 |
| Other | | 570,972 | 45,202 |
| Land Sales | | - | 807,018 |
| **Total Revenue** | | **37,841,047** | **28,309,770** |
| EXPENDITURE | | | |
| Personnel | 12 | 9,190,078 | 6,752,926 |
| Remuneration of councillors | 13 | 1,429,783 | 1,372,875 |
| Depreciation and amortisation | 14 | 2,417,683 | 1,841,840 |
| Repairs and maintenance | | 270,706 | 170,399 |
| Finance costs | 15 | 109,593 | 102,977 |
| Grants and subsidies paid | | 4,762,721 | 2,819,245 |
| Contracted services | | 807,525 | 790,325 |
| Debt impairment | | 102,187 | 787,558 |
| General Expenses | 16 | 9,478,357 | 9,012,844 |
| **Total Expenditure** | | **28,568,633** | **23,650,989** |
| Revenue | | 37,841,047 | 28,309,770 |
| Expenditure | | (28,568,633) | (23,650,989) |
| **Surplus for the year** | | **9,272,414** | **4,658,781** |

# STATEMENT OF CHANGES IN NET ASSETS

## STATEMENT OF CHANGES IN NET ASSETS

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at 01 July 2010** | **36,644,575** | **36,644,575** |
| **Changes in net assets** | | |
| Surplus for the year | 4,658,781 | 4,658,781 |
| Total changes | 4,658,781 | 4,658,781 |
| Opening balance as previously reported | 41,303,356 | 41,303,356 |
| **Adjustments** | | |
| Correction of errors | 1,515,862 | 1,515,862 |
| Balance at 01 July 2011 as restated | 42,819,218 | 42,819,218 |
| **Changes in net assets** | | |
| Fair value gains, net of tax: Land and buildings | 41,201,869 | 41,201,869 |
| Net income (losses) recognised directly in net assets | 41,201,869 | 41,201,869 |
| **Surplus for the year** | **9,272,414** | **9,272,414** |
| Total recognised income and expenses for the year | 50,474,283 | 50,474,283 |
| Total changes | 50,474,283 | 50,474,283 |
| **Balance at 30 June 2012** | **93,293,501** | **93,293,501** |

## CASH FLOW STATEMENT

| Figures in Rand | Note(s) | 2012 | 2011 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| **RECEIPTS** | | | |
| Cash receipts from ratepayers, government grants and other | | 34,597,199 | 28,186,228 |
| Interest income | | 178,102 | 192,246 |
| **PAYMENTS** | | | |
| Cash paid to suppliers and employees | | (25,557,454) | (21,523,783) |
| Finance costs | | (109,593) | (102,977) |
| | | (25,667,047) | (21,626,760) |
| Total receipts | | 34,775,301 | 28,378,474 |
| Total payments | | (25,667,047) | (21,626,760) |
| Undefined difference compared to the cash generated from operations note | | (91,367) | - |
| **Net cash flows from operating activities** | **17** | **9,016,887** | **6,751,714** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 18 | (8,196,742) | (8,917,199) |
| Proceeds from sale of property, plant and equipment | 18 | - | 38,708 |
| Purchase of other intangible assets | 19 | (110,838) | (11,415) |
| **Net cash flows from investing activities** | | **(8,307,580)** | **(8,889,906)** |
| Cash flows from financing activities | | | |
| Movement in Unspent conditional Grant | | (1,337,410) | - |
| (Increase)/Decrease in investments | | (306,954) | (35,910) |
| **Net cash flows from financing activities** | | **(1,644,364)** | **(35,910)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(935,057)** | **(2,174,102)** |
| Cash and cash equivalents at the beginning of the year | | 1,251,166 | 3,425,268 |
| **Cash and cash equivalents at the end of the year** | **2** | **316,109** | **1,251,166** |

# ACCOUNTING POLICIES

## 1. Basis of presentation

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. These annual financial statements have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The summary of the significant accounting policies, which have been consistency applied are disclosed below. These accounting policies are consistent with the previous period, unless otherwise stated. These standards are summarised as follows:

GRAP 1 Presentation of Financial Statements

GRAP 2 Cash Flow Statement

GRAP 3 Accounting Policies , Changes in Accounting Estimates and Errors

GRAP 4 The Effects of Changes in Foreign Exchange Rates

GRAP 5 Borrowing Costs

GRAP 6 Consolidated and Separate Financial Statements

GRAP 9 Revenue from Exchange Transactions

GRAP 11 Construction Contracts

GRAP 12 Inventories

GRAP 13 Leases

GRAP 14 Events After the Reporting Date

GRAP 16 Investment Properties

GRAP 17 Property, Plant and Equipment

GRAP 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP 100 Non-current Assets Held for Sale and Discontinued Operations

GRAP 101 Agriculture

GRAP 102 Intangible Assets

### 1.1 Presentation of currency

These annual financial statements are presented in South African Rand.

### 1.2 Going concern assumption

These annual financial statements have been prepared on a going concern basis.

### 1.3 Standards, amendments to standard and interpretations issue but not yet effective

The Municipality has no applied the following standards and interpretations, which have been published and are mandatory for the Municipality's accounting beginning on or after 01 April 2012 or late periods:

### GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the Municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an Municipality reports information to management.

Segments information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an Municipality that provides specific outputs or achieves particular operating objectives which are in line with the Municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved by an Municipality within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The Municipality expects to adopt the standard for the first time once it becomes effective.

The impact of this standard is currently being assessed.

### GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an Municipality receives value from another Municipality without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as the date of acquisition.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, expect to the extent that a liability is recognised for the same inflow. As an Municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The Municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the Municipality's annual financial statements.

### GRAP 24: Presentation of Budget Information in the Financial Statements

An Municipality should present comparison of the budget amounts for which is held publicity accountable and actual amounts either as a separate additional financial statements or as additional budget columns in the financial statements currently presented in accordance with standards of GRAP. The comparison of budget amounts shall presents separately for each level of legislative oversight:

- the approved and final budget amounts.
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the Municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

**GRAP 21: Impairment of Non-cash-generating Assets.**

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds is recoverable service amount, it is impaired.

The present value of the remaining service potential of non-cash –generating asset is determined using one of the following approaches:

- Depreciated replacement coast approach
- Restoration cost approach
- Service units approach

The effective date of the standard is for the year beginning on or after 01 April 2012.

The Municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the Municipality's annual financial statements.

**GRAP 26: Impairment of Cash-generating Assets**

Cash-generating assets are those assets held by an Municipality with the primary objectives of generating a commercial return.

When an asset is deployed in a manner consistent with that adopted by a profit-orientated Municipality, it generates a commercial return. When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

**GRAP 25: Employee Benefits**

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits.

GRAP 25 must be applied by an employer in accounting for all employee benefits, expect share based payment transactions.

This standard has been approved by the Board bit its effective date has not been determined by the Minister of Finance.

The Municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the Municipality's annual financial statements.

**GRAP 104: Financial Instruments**

The Standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments.

Financial instruments are defined as those contracts that results in a financial assets in one Municipality and a financial liability or residual interest in another Municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

Financial assets and financial liabilities are initially recognised at fair value, where an Municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

Concessionary loans are loans either received by or granted to another Municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measures either at fair value or, amortised cost or cost. An Municipality measures a financial instrument at fair value if it is:

- A derivative;
- a combined instrument designated at fair value, i.e. an instruments that includes a derivative and non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investments in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

GRAP 104 requires extensive disclosure on the significance of financial instruments for Municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an Municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An Municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

The effective date of the standard is for years beginning on or after 01 April 2012.

**GRAP 20: Related Party Disclosures.**

The objective of the standard is to ensure that an Municipality's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The Standard has been approved by the Board but its effective date has not been determined by the Minister of Finance.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is de-recognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are de-recognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and Buildings which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period.

The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Average useful life |
|---|---|
| Roads and Paving | 30 |
| Buildings | 30 |
| Pedestrian Malls | 30 |
| Electricity | 20-80 |
| Recreational Facilities | 20-30 |
| Security | 5 |
| Specialist Vehicles | 10 |
| Other Vehicles | 5 |
| Office Equipment | 3-7 |
| Furniture and Fittings | 7-10 |
| Watercraft | 15 |
| Bins and Containers | 5 |
| Specialised Plant and Equipment | 10-15 |
| Other Items of Plant and Machinery | 2-5 |
| Landfill Sites | 20 |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are de-recognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in surplus or deficit when the item is de-recognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

### 1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| | |
|---|---|
| Computer software, other | 2-5 years |

### 1.6 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method. Investments, which include listed, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held to maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

### 1.7 Receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current. An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

### 1.8 Financial liabilities: Accounts payable

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

### 1.9 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

The municipality categorises cash and cash equivalents as financial assets: loans and receivables. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

### 1.10 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.11 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.12 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.13 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### 1.15 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions,liability is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible Councillors or officials is virtually certain.

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

### 1.16 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.19 and. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;

- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The Municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the Municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

**Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an Municipality pays fixed contributions into a separate Municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the Municipality during a reporting period, the Municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an Municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

**Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the Municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting Municipality) that are held by an Municipality (a fund) that is legally separate from the reporting Municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting Municipality's own creditors (even in liquidation), and cannot be returned to the reporting Municipality, unless either

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting Municipality; or
- the assets are returned to the reporting Municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the Municipality's informal practices. Informal practices give rise to a constructive obligation where the Municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the Municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The Municipality measure the resulting asset at the lower of

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The Municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The Municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The Municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an Municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an Municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The Municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the Municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The Municipality offsets an asset relating to one plan against a liability relating to another plan when the Municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money.

The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

**1.19 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return.

When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or

(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

**1.20 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;

- the expenditures that will be undertaken; and
- when the plan will be implemented; and

- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

### 1.21 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.22 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is de-recognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

### 1.23 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

### Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period.

In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and intangible assets. This estimate is based on the condition and use of the individual assets, in order to determine the remaining period over which the asset can and will be used.

### 1.24 Financial instruments

### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

**Initial recognition and measurement**

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

**Subsequent measurement**

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit exclude dividends and interest.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

**Loans to (from) economic entities**

These include loans to and from controlling entities, fellow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

**Receivables from exchange transactions**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

**Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**1.25 Leases**

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

However, if the lease term has expired the actual amount incurred is recognised as an expense and commitments will be one years worth of expenditure estimated from the current information available.

**1.26 Budget information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

**1.27 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 2. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 689 | 2,000 |
| First National Bank (Primary bank account) - 62022340385 (Main Bank Account) | 72,096 | 222,913 |
| First National Bank (Call account) - 62075347396 | 132,421 | 3,585 |
| First National Bank (Call account) - 62214360068 | 153,380 | 579,524 |
| First National Bank (Housing Development Fund) - 62191984949 | 48,890 | 443,144 |
| | **407,476** | **1,251,166** |

## 3. Short Term Investments

| | | |
|---|---|---|
| ABSA (Public Sector KwaZulu Natal) - 9109586760 | 637,863 | 624,583 |
| First National Bank (Call account) - 62196695533 | 313,296 | 19,622 |
| First National Bank - 62174958276 | 30,549 | 30,549 |
| | **981,708** | **674,754** |

## 4. Receivables from exchange transactions

| | | |
|---|---|---|
| Consumer Debtors | 8,717,838 | 5,652,092 |
| Debtors Prepayments | - | 51,706 |
| Sundry debtors | 36,759 | 37,528 |
| | 8,754,597 | 5,741,325 |
| Less: Provision for doubtful debt | (1,969,277) | (1,867,090) |
| | **6,785,320** | **3,874,236** |

### Summary of debtors by customer classification

| 2012 | Consumers and place of worship | Agriculture and commercial | National and Provincial Government | Total |
|---|---|---|---|---|
| Current (0 – 30 days) | 180,875 | 314,802 | 84,915 | 580,592 |
| 31 - 60 Days | 156,365 | 240,793 | 24,264 | 421,422 |
| 61 - 90 Days | 142,480 | 191,889 | 23,783 | 358,152 |
| 91 - 120 Days | 136,501 | 190,001 | 23,268 | 349,770 |
| 121 - 150 Days | 131,343 | 177,181 | 23,048 | 331,572 |
| 151 - 180 Days | 128,478 | 166,693 | 23,299 | 318,470 |
| +181 Days | 3,241,705 | 2,506,459 | 609,696 | 6,357,860 |
| Sub-total | 4,117,747 | 3,787,818 | 812,273 | 8,717,838 |
| Less: Provision for doubtful debts | (1,969,277) | - | - | (1,969,277) |
| **Total** | **2,148,470** | **3,787,818** | **812,273** | **6,748,561** |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

| 2012 | Consumers and place of worship | Agriculture and commercial | National and Provincial Government | Total |
|---|---|---|---|---|

## Reconciliation of provision for doubtful debts

| | | |
|---|---|---|
| Opening balance | 1,867,090 | 1,079,532 |
| Provision for impairment | 102,187 | 787,558 |
| **Balance at the end of the year** | **1,969,277** | **1,867,090** |

## 5. VAT receivable

| | | |
|---|---|---|
| VAT | 1,755,075 | 993,348 |

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

## 6. Property rates

### Rates received

| | | |
|---|---|---|
| Property Rates | 5,169,761 | 3,957,330 |

The valuation roll of the Big 5 False bay municipality was prepared in accordance with the provisions of the Local Government: Municipal Property rates Act, 2004 (Act 6 of 2004). It was prepared by Roger Martin Fitchet, Identity number 5807285141084, a registered professional valuer and was certified on the 31st day of January 2009. The roll is effective from 1 July 2009 to 30 June 2013.

## 7. Service charges

| | | |
|---|---|---|
| Service charges | 1,020,336 | 1,237,384 |

## 8. Rental of facilities and equipment

| | | |
|---|---|---|
| Rental income | 129,540 | 148,626 |

## 9. Interest earned

| | | |
|---|---|---|
| External investments | 178,102 | 192,246 |

## 10. Rates penalties

| | | |
|---|---|---|
| Rates Penalties | 994,896 | 691,334 |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 11. Government grants and subsidies

| | | |
|---|---|---|
| Equitable share | 12,360,000 | 9,746,782 |
| Municipal Assistance Programme Grant | 76 | - |
| Financial Management Grant | 1,450,000 | 1,086,019 |
| Municipal Infrastructure Grant | 10,268,830 | 6,213,210 |
| Municipal System Improvement Grant | 790,000 | 640,498 |
| Sports and Recreation Grant | 604,685 | 1,847,209 |
| Corridor Development Grant | - | 740,044 |
| Treasury 1% | - | 380,095 |
| Library Grant | 586,363 | 547,965 |
| INEG (Electrification Programme Grant) | 3,686,255 | - |
| | **29,746,209** | **21,201,822** |

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

### Municipal Infrastructure Grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1,728,644 | 1,943,854 |
| Current-year receipts | 9,234,000 | 6,052,162 |
| Conditions met - transferred to revenue | (10,268,830) | (6,267,372) |
| | **693,814** | **1,728,644** |

Conditions still to be met - remain liabilities (see note 22).

### Financial Management Grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | (113,981) |
| Current-year receipts | 1,450,000 | 1,200,000 |
| Conditions met - transferred to revenue | (1,450,000) | (1,086,019) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 22).

### Municipal Systems Improvement Grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | (97,502) |
| Current-year receipts | 790,000 | 750,000 |
| Conditions met - transferred to revenue | (790,000) | (652,498) |
| | **-** | **-** |

| Figures in Rand | 2012 | 2011 |
|---|---|---|
| Conditions still to be met - remain liabilities (see note 22). | | |
| **Municipal Assistance Programme Grant** | | |
| Balance unspent at beginning of year | 76 | 76 |
| Conditions met - transferred to revenue | (76) | - |
| | **-** | **76** |
| Conditions still to be met - remain liabilities (see note 22). | | |
| **Sports and Recreation Grant** | | |
| Balance unspent at beginning of year | 34,455 | 34,455 |
| Current-year receipts | 675,000 | - |
| Conditions met - transferred to revenue | (604,685) | - |
| | **104,770** | **34,455** |
| Conditions still to be met - remain liabilities (see note 22). | | |
| **Corridor Development Grant** | | |
| Balance unspent at beginning of year | - | 740,045 |
| Conditions met - transferred to revenue | - | (740,045) |
| | **-** | **-** |
| Conditions still to be met - remain liabilities (see note 22). | | |
| **Recycle Development Grant** | | |
| Balance unspent at beginning of year | 40,000 | 40,000 |
| Conditions met - transferred to revenue | (40,000) | - |
| | **-** | **40,000** |
| Conditions still to be met - remain liabilities (see note 22). | | |
| **Library Grant** | | |
| Current-year receipts | 586,363 | 547,965 |
| Conditions met - transferred to revenue | (586,363) | (547,965) |
| | **-** | **-** |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

Conditions still to be met - remain liabilities (see note 22).

## INEG - Electrification Programme Grant

| | | |
|---|---|---|
| Current-year receipts | 5,425,000 | - |
| Conditions met - transferred to revenue | (3,687,427) | - |
| | **1,737,573** | **-** |

Conditions still to be met - remain liabilities (see note 22).

## 12. Employee related costs

| | | |
|---|---|---|
| Basic | 7,289,232 | 5,157,522 |
| Contributions for UIF, pensions and medical aids | 743,362 | 580,828 |
| Travel, motor car, accommodation, subsistence and other allowances | 727,989 | 624,272 |
| Overtime payments | 153,207 | 161,644 |
| Bonus | 276,288 | 228,660 |
| | **9,190,078** | **6,752,926** |

Section 57 employees remuneration included in employee related costs Refer to Note 12.1 for more details

### 12.1 SECTION 57 REMUNERATION

**Remuneration of municipal manager**

| | | |
|---|---|---|
| Annual Remuneration | 580,568 | 560,198 |
| Travel, motor car, accommodation, subsistence and other allowances | 133,589 | 131,774 |
| Contributions to UIF, Medical and Pension Funds | 2,853 | 2,995 |
| | **717,010** | **694,967** |

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Annual remuneration | 565,527 | 518,747 |
| Travel, motor car, accommodation, subsistence and other allowances | 204,756 | 111,732 |
| Contributions to UIF, medical and pension funds | 17,743 | 35,399 |
| | 788,026 | 665,878 |

**Remuneration of planning services**

| | | |
|---|---|---|
| Annual remuneration | 565,527 | 518,747 |
| Travel, motor car, accommodation, subsistence and other allowances | 102,504 | 66,000 |
| Contributions to UIF, medical and pension funds | 2,995 | 2,995 |
| | **671,026** | **587,742** |

| Figures in Rand | 2012 | 2011 |
|---|---|---|
| **Corporate services** | | |
| Annual remuneration | 613,527 | 566,747 |
| Travel, motor car, accommodation, subsistence and other allowances | 97,247 | 56,397 |
| Contributions to UIF, medical and pension funds | 2,995 | - |
| | **713,769** | **623,144** |

## 13. Remuneration of councillors

| | | |
|---|---|---|
| Councillors | 866,812 | 838,324 |
| Councillors' pension contribution | 142,689 | 129,967 |
| Other | 420,282 | 404,584 |
| | 1,429,783 | 1,372,875 |

## In-kind benefits

The Mayor is provided with an office and secretarial support at the cost of the Council.

## Employee Benefits

The Municipal employees belong to Natal Joint Municipal Pension Fund and Municipal Council Pension Fund, contributed amounts are paid over to the fund

## 14. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 2,417,683 | 1,841,840 |

## 15. Finance costs

| | | |
|---|---|---|
| Other interest paid | 109,593 | 102,977 |

## 16. General expenses

| | | |
|---|---|---|
| Audit Committee | 185,886 | 71,805 |
| Subscriptions and membership fees | - | 1,450 |
| Auditors remuneration | 1,450,424 | 1,522,180 |
| Bank charges 29,772 26,712 | | |
| Assessment rates and municipal charges | - | 91,367 |
| Bursaries | 175,000 | 279,755 |
| Council support | 75,345 | 14,008 |
| Water | 352,409 | 283,595 |
| Entertainment | 98,128 | 84,264 |
| Assets expensed | 23,718 | 9,582 |
| Events and social projects | 407,412 | 792,826 |
| Fuel and oil | 352,187 | 339,399 |
| Housing survey | - | 51,540 |
| Insurance 1 | 10,701 | 79,968 |
| Legal fees | 51,108 | 268,449 |

| Figures in Rand | 2012 | 2011 |
|---|---|---|
| Group life | 57,373 | 161,825 |
| License fees - vehicles | 205,057 | 11,790 |
| Other expenses | 97,573 | 1,648 |
| Lease rentals on operating lease | 1,363,324 | 1,093,997 |
| Postage and courier | 475,483 | 447,324 |
| Poverty alleviation | 14,950 | 51,886 |
| Printing and stationery | 180,774 | 226,786 |
| Publicity | 200,601 | 135,190 |
| Sport and recreation | 27,444 | 4,338 |
| Security | 870,428 | 302,342 |
| Uniforms | 59,666 | 63,320 |
| Upliftment programme | 624,176 | 05,985 |
| Disaster management | 988,877 | 914,296 |
| Plotter maps | - | 1,850 |
| Leave expense | 20,809 | 213,964 |
| Training | 769,628 | 609,995 |
| Computer expenses | 128,096 | 108,275 |
| In-service Training | - | 2,400 |
| Loss on sale of asset | 9,363 | 38,733 |
| Other expenditure | 72,645 | - |
| | **9,478,357** | **9,012,844** |

## 17. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 9,272,414 | 4,658,781 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 2,417,683 | 1,841,840 |
| Interest income | (178,102) | (192,246) |
| Correction of prior period error | 1,526,316 | 2,160,017 |
| Finance costs | - | 102,977 |
| Loss on sale of asset | 9,363 | 38,733 |
| Movements in provisions | (331,694) | 248,669 |
| **Changes in working capital:** | | |
| Receivables from exchange transactions | (2,916,498) | (1,018,537) |
| Consumer debtors | (102,187) | - |
| Payables from exchange transactions | (651,663) | 3,030,981 |
| VAT | (761,727) | (983,504) |
| Unspent conditional grants and receipts | 732,982 | (3,135,997) |
| | **9,016,887** | **6,751,714** |

Figures in Rand

18. Property, plant and equipment

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Cost /Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 28,162,900 | - | 28,162,900 | 935,500 | - | 935,500 |
| Buildings | 38,942,136 | (3,137,519) | 35,804,617 | 27,654,515 | (2,089,427) | 25,565,088 |
| Furniture and fixtures | 487,421 | (163,630) | 323,791 | 306,293 | (98,769) | 207,524 |
| Motor vehicles | 1,484,084 | (1,068,322) | 415,762 | 1,424,375 | (864,422) | 559,953 |
| Office equipment | 1,139,792 | (577,016) | 562,776 | 877,511 | (451,075) | 426,436 |
| IT equipment | 980,550 | (419,291) | 561,259 | 787,634 | (353,942) | 433,692 |
| Infrastructure | 24,376,637 | (3,945,824) | 20,430,813 | 9,589,852 | (3,230,957) | 6,358,895 |
| Community | 8,000 | (2,667) | 5,333 | 8,000 | (2,400) | 5,600 |
| Assets under construction | 8,473,296 | - | 8,473,296 | 13,163,888 | - | 13,163,888 |
| **Total** | **104,054,816** | **(9,314,269)** | **94,740,547** | **54,747,568** | **(7,090,992)** | **47,656,576** |

## 18. Property, plant and equipment (continued)

### Reconciliation of property, plant and equipment – 2012

| | Opening balance | Additions | Disposals | Transfers | Newly identified assets at fair value | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 935,500 | - | - | - | 27,227,400 | - | 28,162,900 |
| Buildings | 25,565,088 | 84,650 | - | 10,875,070 | 327,901 | (1,048,092) | 35,804,617 |
| Furniture and fixtures | 207,524 | 171,833 | (1,966) | - | 11,515 | (65,115) | 323,791 |
| Motor vehicles | 559,953 | - | - | - | 59,709 | (203,900) | 415,762 |
| Office equipment | 426,436 | 209,567 | (5,403) | - | 67,424 | (135,248) | 562,776 |
| IT equipment | 433,692 | 228,514 | (1,671) | - | 38,835 | (138,111) | 561,259 |
| Infrastructure | 6,358,895 | - | - | 1,317,700 | 13,469,085 | (714,867) | 20,430,813 |
| Community | 5,600 | - | - | - | - | (267) | 5,333 |
| Assets under construction | 13,163,888 | 7,502,178 | - | (12,192,770) | - | - | 8,473,296 |
| | **47,656,576** | **8,196,742** | **(9,040)** | **-** | **41,201,869** | **(2,305,600)** | **94,740,547** |

### Reconciliation of property, plant and equipment – 2011

| | Restated Opening balance | Disposals | Additions | Depreciation | Total |
|---|---|---|---|---|---|
| Land | 935,500 | - | - | - | 935,500 |
| Buildings | 25,936,964 | - | 536,657 | (908,533) | 25,565,088 |
| Infrastructure | 6,877,332 | - | - | (518,438) | 6,358,894 |
| Community | 5,600 | | | | 5,600 |
| Other property, plant and equipment | 1,878,168 | (38,708) | 129,552 | (341,406) | 1,627,606 |
| Assets under construction | 4,862,336 | - | 8,301,552 | - | 13,163,888 |
| | 40,495,900 | (38,708) | 8,967,761 | (1,768,377) | 47,656,576 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Figures in Rand

## 19. Intangible assets

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 691,920 | (378,406) | 313,514 | 582,307 | (267,234) | 315,073 |

**Reconciliation of intangible assets – 2012**

| | Opening balance | Additions | Disposals | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software, other | 315,073 | 110,838 | (312) | (112,084) | 313,515 |

**Reconciliation of intangible assets – 2011**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 377,123 | 11,415 | (73,465) | 315,073 |

| Figures in Rand | 2012 | 2011 |
|---|---|---|
| **20. Provisions** | | |
| Leave Provision | 478,099 | 676,680 |
| Bonus Provision | - | 222,413 |
| Landfill Site Provision | 939,775 | 850,475 |
| | 1,417,874 | 1,749,568 |

**Reconciliation of provisions – 2012**

| | Opening Balance | Reversed during the year | Change in discount factor | Reduction due to re-measurement or settlement without cost to entity | Total |
|---|---|---|---|---|---|
| Land fill site Provision | 850,475 | - | 89,300 | - | 939,775 |
| Bonus Provision | 222,413 | (222,413) | - | - | - |
| Leave Provision | 676,680 | - | - | (198,581) | 478,099 |
| | 1,749,568 | (222,413) | 89,300 | (198,581) | 1,417,874 |

**Reconciliation of provisions – 2011**

| | Opening Balance | Additions | Change in discount factor | Total |
|---|---|---|---|---|
| Land fill site Provision | - | 769,661 | 80,814 | 850,475 |
| Bonus Provision | 222,413 | - | - | 222,413 |
| Leave Provision | 508,825 | 167,855 | - | 676,680 |
| | 1,500,899 | 167,855 | 80,814 | 1,749,568 |

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 10.5%, over an average period of 20 years.

**21. Payables from exchange transactions**

| | | |
|---|---|---|
| Trade payables | 4,699,314 | 6,697,132 |
| Payments received in advanced - contract in process | 59,811 | 51,706 |
| Site deposit | 2,513,960 | 553,960 |
| Unallocated deposits | 1,018 | 1,018 |
| Housing project | - | 822,632 |
| Mahonge Community Trust | - | 21,050 |
| Accrued expense | 40,907 | 40,907 |
| Other creditors | 421,098 | 199,372 |
| | 7,736,108 | 8,387,777 |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 22. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises:**

| | | |
|---|---|---|
| MIG Grants | 693,814 | 1,728,644 |
| MAP | - | 76 |
| Sports and Recreation | 104,770 | 34,455 |
| Recycle Development Grant | - | 40,000 |
| INEG (Electrification Programme Grant) | 1,737,573 | - |
| | 2,536,157 | 1,803,175 |

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

## 23. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 1,450,424 | 1,522,180 |

## 24. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening Balance | 1,009,421 | 617,000 |
| Current year | 109,593 | 392,421 |
| Condoned by council | (1,009,421) | - |
| | **109,593** | **1,009,421** |

Fruitless and wasteful expenditure incurred in the current year relates to interests and penalties on late payments.

## 25. Operating lease

The operating leases have expired and they are renewed on a month to month basis and the municipality will only disclose commitments worth one year since the contracts can be terminated at any time during the next 12 months. At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

| | | |
|---|---|---|
| Due within 12 months | 1,294,847 | 248,700 |

## 26. Capital Commitments

Commitments in respect of capital expenditure

Commitments relates to MIG projects that have already been registered by June 2012 for the 2012/13 financial year

Approved but not yet contracted for

| | | |
|---|---|---|
| - Infrastructure | 11,228,000 | 34,880,000 |
| The above capital expenditure will be financed from: | | |
| - Government Grants | 11,228,000 | 34,880,000 |

Figures in Rands 2012 2011

## 27. Statement of comparative and actual information

| | Original budget | Budget adjustments | Virement (i.t.o. Council approved) | Final Budget | Actual outcome | Variance | Actuals as % of final budget | Actuals as % of original budget |
|---|---|---|---|---|---|---|---|---|
| **Financial Performance** | | | | | | | | |
| Property rates | 5,423,000 | 5,423,000 | | 5,423,000 | 5,169,761 | 253,239 | 95% | 95% |
| Service charges | 1,380,000 | 1,380,000 | | 1,380,000 | 1,020,336 | 359,664 | 74% | 74% |
| Investment revenue | - | 165,000 | | 165,000 | 178,102 | (13,102) | 108% | 108% |
| Transfers recognised - operational | 16,016,000 | 15,846,000 | | 15,846,000 | 29,746,209 | (13,900,209) | 188 % | 186 % |
| Other own revenue | 693,000 | 698,000 | | 698,000 | 1,726,639 | (1,028,639) | 247% | 249% |
| **Total revenue (excluding capital transfers and contributions)** | **23,512,000** | **23,512,000** | | **23,512,000** | **37,841,047** | **(14,329,047)** | **161%** | **161%** |
| Employee costs | (8,595,685) | (9,181,685) | 586,000 | (8,595,685) | (9,190,078) | 594,393 | 107 % | 107% |
| Remuneration of councillors | (1,414,730) | (1,428,148) | 13,418 | (1,414,730) | (1,429,783) | 15,053 | 101% | 101% |
| Debt impairment | - | - | | - | (102,187) | 102,187 | 100% | 100% |
| Depreciation and asset impairment | (1,300,000) | (1,300,000) | | (1,300,000) | (2,417,683) | 1,117,683 | 186% | 186% |
| Finance charges | - | (110,000) | 110,000 | - | (109,593) | 109,593 | 100 % | 100 % |
| Transfers and grants | (3,470,000) | (3,670,000) | 200,000 | (3,470,000) | (4,762,721) | 1,292,721 | 137% | 137% |
| Other expenditure | (8,731,585) | (7,822,167) | (909,418) | (8,731,585) | (10,556,588) | 1,825,003 | 121% | 121% |
| **Total expenditure** | **(23,512,000)** | **(23,512,000)** | **-** | **(23,512,000)** | **(28,568,633)** | **5,056,633** | **122%** | **122%** |
| Total revenue (excluding capital transfers and contributions) | 23,512,000 | 23,512,000 | - | 23,512,000 | 37,841,047 | (14,329,047) | 161% | 161% |
| Total expenditure | (23,512,000) | (23,512,000) | - | (23,512,000) | (28,568,633) | 5,056,633 | 122% | 122% |
| Surplus/(Deficit) | - | - | - | - | 9,272,414 | (9,272,414) | 100% | 100% |
| Surplus (Deficit) after capital transfers and contributions | - | - | - | - | 9,272,414 | (9,272,414) | 100% | 100% |
| **Surplus/(Deficit) for the year** | **-** | **-** | | **-** | **9,272,414** | **(9,272,414)** | **100%** | **100%** |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 28. Risk management

**Liquidity risk**

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and monitored on the monthly basis.

### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

## 29. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance | 145,916 | 52,232 |
| Unauthorised expenditure current year | 5,056,633 | 93,684 |
| Condoned or written off by council | (145,916) | - |
| | **5,056,633** | **145,916** |

The current year unauthorised expenditure relates to over expenditure on the operating budget.

## 30. Contingencies

| | | |
|---|---|---|
| High court application fees | 150,000 | - |

The contingent liabilities includes legal costs of an estimated amount of R 150 000, which arose from Mbokodwe investment who demanded payments from the Municipality whereas they signed a session agreement with Pick 'n Build (the supplier). The application to High Court will be made in 2012/13 financial year.

## 31. Related parties

There were no related party transactions during the financial year.

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 32. Prior period errors

Correction under Accounts Payable relates to revenue not realised against the Housing Development Grant in prior years.

The corrections under fixed assets relates to reversal of depreciation on fully depreciated assets.

The correction of the error(s) results in adjustments as follows:

| | | |
|---|---|---|
| **Account payable** | | |
| Previous disclosure | 9,206,573 | - |
| Correction of errors | (813,382) | - |
| **Restated balance** | **8,393,191** | **-** |
| Property, plant and equipment | | |
| Previous disclosure | 47,080,749 | - |
| Correction of errors | 575,827 | - |
| **Restated balance** | **47,656,576** | **-** |
| **Intangible assets** | | |
| Previous disclosure | 188,420 | - |
| Correction of errors | 126,653 | - |
| **Restated balance** | **315,073** | **-** |

## 33. Going concern

| | | |
|---|---|---|
| **Unspent Conditional Grants not cash backed** | **1,146,973** | **-** |

The Municipality will be financially viable in the 2012/13 financial year. Unspent conditional Grants will be banked on a separate bank account as per the provision of Division Of Revenue Act from the subsequent financial year. In the adjusted budget the Municipality will make a provision for previous years unspent provisional grants. The provision is also made in the three year budget plan.

## 34. Irregular expenditure

| | | |
|---|---|---|
| Suppliers in the service of state | 45,600 | - |
| Expired contracts - Current year | 114,727 | - |
| Expired contracts - Prior year | 183,957 | - |
| Preferential point system not used | 109,287 | - |
| Declaration of interest not provided by service providers | 398,220 | - |
| | **851,791** | **-** |

The supplementary information is unaudited.

| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 06 | **Property, Plant and Equipment**<br>I was unable to obtain sufficient appropriate audit evidence to confirm the valuation and allocation of property, plant and equipment stated at R13,975 million in the financial statements. I was unable to confirm the valuation and allocation of the property, plant and equipment by any alternate means possible | Pertinent information is not captured and stored in a manner such that it is readily available and accessible. | (a) Council will review the asset management policy.<br>(b) Management will source the services of qualified service provider to compile the GRAP compliant Fixed asset register.<br>(c) Management will be reconciling the fixed asset register on a Quarterly basis | 28 February 2013<br>1 March 2013<br><br>31 March 2013 | Council Resolution<br><br>Fixed Asset Register<br><br>Quarterly Fixed Asset Reconciliations signed by CFO | Chief Financial Officer |
| Par. 07 | Property, Plant and Equipment<br>I was unable to obtain sufficient appropriate audit evidence to confirm the valuation and allocation of, and rights and obligation pertaining to, land stated at R28,163 million in the financial statements. I was unable to confirm the valuation and allocation of, and rights and obligations pertaining to, land by any alternate means possible. | Pertinent information is not captured and stored in a manner such that it is readily available and accessible. | (a) Council will review the asset management policy.<br>(b) Management will source the services of qualified service provider to compile the GRAP compliant Fixed asset register.<br>(c) Management will be reconciling the fixed asset register on a monthly basis with supplementary valuation roll | 28 February 2013<br><br>1 March 2013<br><br>31 March 2013 | Council Resolution<br><br>Fixed Asset Register.<br><br>Monthly Fixed Asset Reconciliation signed by CFO | Chief Financial Officer |

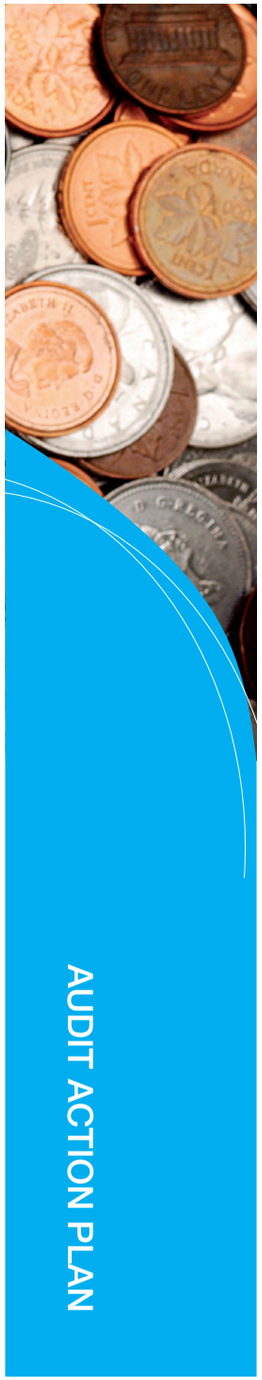
| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 08 | **Leases**<br>I was unable to obtain sufficient appropriate audit evidence to support the balance of R1,294 million disclosed under operating leases in note 25 to the financial statements. I was unable confirm the existence, completeness, valuation and allocation of, and obligations pertaining to this amount by any alternate means possible | Pertinent information is not captured and stored in a manner such that it is readily available and accessible. | (a) All lease agreements with the service providers will be located and safely stored for future use and verification<br>(b) Council will consider changing accounting policy on leases from operating leases to finance leases.<br>(c) Leases register and leases file will be compiled | 31 March 2013 | Leases Register and Leases File<br><br>Lease Agreements File | Chief Financial Officer |
| Par. 12 | **Financial Sustainability/ Going Concern**<br>While the municipality has prepared financial statements on a going concern basis there are a number of indicators that its financial sustainability is under threat.<br>• The municipality's current liabilities exceed their current assets by R1,760 million.<br>• The unspent grants concomitant assets (investments and cash and bank) do not sufficiently support the existence of grants with a difference of R1,146 million | The budget was over spent by R5 million thus increasing creditors.<br><br>There is a lack of control and monitoring over the unspent conditional grants which has resulted in the unspent conditional grants not being cash backed | (a) The management will develop and table to Council the Revenue Enhancement strategy.<br>(b) The management will develop and table to Council the Financial Improvement Plan; this will require Council to resolve of the Adjustment budget.<br>(c) Management to maintain separate Bank account for each conditional Grant received | 25 January 2013<br><br>25 January 2013<br><br>1 December 2012 | Council Resolution adopting Revenue Enhancement Strategy.<br><br>Council Resolution adopting Financial Improvement Plan and Consideration of Adjustment Budget.<br><br>Monthly Grants Management Reports | Chief Financial Officer |

| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 13 | **Irregular Expenditure**<br>As disclosed in note 34 to the financial statements, irregular expenditure amounting to R851 791 was incurred as a result of the contravention of SCM legislation | Oversight responsibility over compliance with laws and regulations and internal control | (a) The Management will ensure that all suppliers declare their Interest before award is made.<br>(b) Management will develop the contracts register and will be reviewed monthly.<br>(c) Management will ensure that for procurement above prescribed amount, the PPPFA is complied with. | 1 January 2013<br>1 January 2013<br>1 January 2013 | Declaration forms<br>Contracts Register<br>Report for all award above prescribed value | Chief Financial Officer |
| Par. 20 | **Annual Performance Report: Presentation**<br>Improvement measures in the annual performance report for a total of 100% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information | Lack of review and monitoring to ensure compliance with the requirements of the above mentioned section of the MSA. | (a) Monthly Management tool as an operating system of Monitoring and Evaluation (M&E) and as prescribed by CoGTA will be implemented and adhered to<br>(b) Monthly performance reports will flow from all Departments to feed the M&E report card of the Municipal Manager and to early identify challenges<br>(c) Quarterly Performance Reports will be made available to Internal Audit, Audit Committee and a report be tabled to Council as per legislative requirements | 31 January 2013 | Quarterly Performance report | Municipal Manager |

| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 21 | **Annual Performance Report: Validity**<br>The FMPPI requires that processes and systems which produce the indicator should be verifiable.<br>I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 71% of the objective to ensure the provision, upgrading and maintenance of infrastructure and services to address backlogs. | Pertinent information is not captured and stored in a manner such that it is readily available and accessible | (a) The System of vouching the output indicators is being designed<br>(b) The system will ensure sufficient evidence is obtained and filed appropriately to assist during the AOPI period<br>(c) The Main File will be updated Quarterly and kept in the Office of the Municipal Manager for future use and verification | 31 March 2013 | Internal Audit reports | Municipal Manager |
| Par. 23 | **Achievement of planned targets**<br>Of the total number of 130 planned targets, 71 were not achieved during the year under review. This represents 55% of total planned targets that were not achieved during the year under review | Lack of Resources | (a) Monthly Management tool as an operating system of Monitoring and Evaluation (M&E) and as prescribed by CoGTA will be implemented and adhered to<br>(b) Monthly performance reports will flow from all Departments to feed the M&E report card of the Municipal Manager and to early identify challenges<br>(c) Quarterly Performance Reports will be made available to Internal Audit, Audit Committee and a report be tabled to Council as per legislative requirements | 31 January 2013 | Quarterly Reports | Municipal Manager |

| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 25 | **Strategic Planning and Performance management**<br>The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan and take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required by section 41 of the MSA. | Oversight responsibility over compliance with laws and regulations. | (a) Management will ensure that, input indicators, output indicators and outcome indicators, are included in respect of each of the development priorities and objectives.<br>(b) Management will develop a checklist detailing requirements of the Local Government: Municipal Planning and Performance Management Regulations, 2001.<br>(c) Management will ensure that the checklist is reviewed a monthly basis to ensure compliance with the above mentioned regulation. | 31 January 2013<br>31 January 2013<br>28 February 2013 | Reviewed Inputs, Output and outcome indicators.<br>Compliance Checklist<br>Monthly report | Municipal Manager |
| Par. 26 | **Mid-Year Budget and Performance Assessment**<br>The accounting officer did not assess the first half of the financial year performance of the municipality, as required by section 72(1) of the MFMA | Pertinent information is not captured and stored in a manner such that it is readily available and accessible. | (a) The 2012/13 Mid-Year budget and performance assessment Report is being prepared and will be kept in file for means of verification.<br>(b) The 2012/13 Mid-Year Budget & Performance Assessment Report is being prepared and will be tabled to Council with the legislated date | 25 January 2013 | (a) Council Resolution<br>(b) Mid-Year Report | Municipal Manager |

| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 27 | **Annual Financial Statements**<br>The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 122(1) of the MFMA.<br>Material misstatements of non-current assets, current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion. | Lack of Review of Annual Financial Statement before submission to Auditor General | a) The Management will submit the draft annual financial statements to the internal audit unit for independent review purposes on full compliance to reporting requirement as set out in GRAP Standards<br>(b) The Internal Audit will review the Financial Statements to give Council & Audit Committee the quality assurance that financials meet all requirements by GRAP standards | 20 August 2013<br><br>24 August 2013 | Independent Review report on AFS by Internal Audit Unit<br>Quality Assurance Report issued by the Audit Committee on Quality of AFS | Chief Financial Officer |
| Par. 28 | **Annual Performance Report**<br>The annual performance report for the year under review does not include a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1) of the MSA. | Lack of review and monitoring to ensure compliance with the requirements of the above mentioned section of the MSA. | (a) The Annual Performance Report is finalized<br>(b) Management will ensure that 2012/13 annual performance report includes a comparison of the performance with targets set for and performances in the previous financial year and measures taken to improve performance. | 31 January 2013 | Annual Performance report | Municipal Manager |



# AUDIT ACTION PLAN

| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 29 | **Annual Report**<br>The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA | Oversight responsibility over compliance with laws and regulations | (a) The 2010/11 will be made public as soon as possible together with the 2011/12 Annual Report | 10 February 2013 | Proof of Publicity | Municipal Manager |
| Par. 30 | **Expenditure management**<br>The accounting officer did not take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA | Oversight responsibility over compliance with laws and regulations | (a) Management will ensure that controls to prevent such expenditures are in place. Internal auditors will be tasked to enforce the exercise of controls | 31 January 2013 | Internal Audit Plan | Chief Financial Officer |

# AUDIT ACTION PLAN

| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 31 | **Expenditure Management**<br>Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA | No register of all invoices received and poor management of creditors. | (a) Management will ensure that invoices due for payments are paid within 30 days and if there are obstacles, communication with creditors will be done | Monthly | Proof of communication with creditors and monthly creditors age analysis report | Chief Financial Officer |
| Par. 33 | **Leadership**<br>Management have not exercised oversight responsibility over financial and performance reporting, compliance with laws and regulations and internal control. Actions are not taken to address risks relating to the achievement of complete and accurate financial reporting and to mitigate the risk resulting in non-compliance with regulatory and reporting requirements | | (a) Management will develop a detailed and comprehensive reporting and compliance checklist.<br>(b) Monthly report will be produced for management and tabled to the Audit Committee Meetings for complete verification of facts | 31 January 2013 | Monthly report | Chief financial Officer and Municipal Manager |

| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 34 | **Financial and Performance Management**<br>Systems are not appropriate to facilitate the preparation of quality financial statements, resulting in material corrections being recommended as a result of audit findings. Delays were experienced in obtaining information requested and responses to queries, resulting in information and responses not being provided within the time line agreed upon in the engagement letter. Internal controls were not developed to prevent, detect and correct non-compliance and irregular and fruitless and wasteful expenditure | | (a) The Management will submit the annual financial statements to the internal audit unit for independent review purposes on full compliance to reporting requirement as set out in GRAP Standards<br>(b) The Internal Audit will review the Financial Statements to give Council & Audit Committee the quality assurance that financials meet all requirements by GRAP standards | 31 August 2013 | Independent Review report on AFS by Internal Audit Unit<br><br>Quality Assurance Report issued by the Audit Committee on Quality of AFS | Chief Financial Officer |

# AUDIT ACTION PLAN

| Paragraph | Audit Query | Root Causes | Planned Management Activity | Target Date | Means of Verification | Responsible Person |
|---|---|---|---|---|---|---|
| Par. 35 | **Governance**<br>The municipality did not conduct a risk assessment as required by the MFMA, resulting in a number of control deficiencies being identified during the audit | Pertinent information is not captured and stored in a manner such that it is readily available and accessible. | (a) The municipality has conducted the risk assessment for 2012/13 financial year and Provincial treasury is assisting in ensuring that corrective/ action plans on identified risks, are developed and implemented.<br>(b) Update risk register at least quarterly | Quarterly | 2012/13 Risk Assessment Report<br><br>2012/13 Risk Based Internal Audit Plan<br><br>Establishment of Functioning Risk Committee. | Municipal Manager (Internal Audit) |

# STATEMENT OF PURPOSE OF THE OVERSIGHT REPORT

## 1. OBJECTIVE

To submit to Council, in terms of Section 129 of the MFMA, the Oversight Report on the Annual Report, of The Big 5 False Bay Municipality

## 2. BACKGROUND

In accordance with the provisions of Section 79 (1) (a) (b) and (c) of the Municipal Structures Act 1998 a municipality may establish one or more committees necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers and appoint the members of such committee from among its members. Furthermore Section 79 (2) of the Municipal Structures Act, 1998 provides the framework and guidelines within which such committees of council shall operate.

During meeting of Association of Public Accounts Committee (APAC) Conference in Badplaas, a resolution was taken stating that the Conference supports the establishment of Municipal Public Accounts Committees (MPACs) in each municipality in the Province as part of improving financial management and accountability at local level.

Thus in order to enhance, promote and consolidate the oversight role of the Council over the executive, the Department of Cooperative Governance and Traditional Affairs having consulted the National Treasury and SALGA, has instructed that all municipalities establish MPACs. The focus of the MPAC will be to assist Council to hold the executive to account and to ensure the effective and efficient use of municipal resources.

## 3. MPAC ESTABLISHMENT

The MPAC committee was established by Council resolution in terms of section 79 of Municipal Structures Act, 117 of 1998, with the functions as envisaged for the Oversight/Public Accounts Committee as intended in the circular 32 of the MFMA. The oversight committee consists of the following members:

Cllr CT Khumalo (Chairperson)

Cllr ZM Mokoena

Cllr NR Thethwayo

Cllr MS Msane

# STATEMENT OF PURPOSE OF THE OVERSIGHT REPORT

## 4. STATEMENT OF PURPOSE OF THE OVERSIGHT REPORT

The council of a municipality must consider the annual report of the municipality, and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the council

- has approved the annual report with or without reservations;
- has rejected the annual report; or
- has referred the annual report back for revision of those components that can be revised.

National Treasury issued circular 32 on 15 March 2006 on the preparation of oversight reports and provides guidelines on the processes to be followed in the adoption of the Oversight Report, to which this report conforms.

The Oversight Report is a separate product from the Annual report. The Annual Report is submitted to the Council by the Accounting Officer and the Mayor and is part ofthe process for discharging accountability by the executive and administration for theirperformance in achieving objectives and goals set by the municipality in the relevantfinancial year. The Oversight Report follows consideration and consultation on the AnnualReport and is considered to be a report of the municipal council.

The accounting officer (Municipal Manager) of the Big 5 False Bay Municipality attended all Council and Council Committee meetings where the Annual Report was discussed. The accounting officer attended the Audit Committee meetings on the 22nd of January 2013 as well as the Council meeting of 31 January 2013. The meeting of the Audit Committee discussed the findings of the AG – presented by his office as well as the response by management under the leadership of the accounting officer.

The minutes of all meetings where the Big 5 False Bay Municipality's Annual Report was discussed, are hereto attached to the Oversight Report:

- Council Meeting of 31 January 2013
- Audit Committee meetings of 22 January 2013

No comments were received from the community. The comments were received from Department Cooperative Governance and Traditional Affairs (attached). Opinions were, however, obtained from the Office of the Auditor-General in the original management letter, together with The Big 5 False Bay municipality's management's responses, are discussed in Sections 4 to ?
of this report.

After the tabling of the 2011/12 Annual Report on 31 January 2013, in line with Section 129 (1) of the MFMA, the Big 5 False Bay Municipality allowed public comments regarding the 2011/12 Annual Report. The commenting period was between 08 February 2013 and 27 February 2013 (proof of Advert attached).

# STATEMENT OF PURPOSE OF THE OVERSIGHT REPORT

The 2011/12 Annual Report of the Big 5 False bay Municipality was made available on the Municipal website, Municipal reception and Municipal library. In addition, the Annual Reports were made available to the following Offices:

- The Office of the Auditor-General
- The Department of Treasury
- The Department of Cooperative Governance and Traditional Affairs

## 5. KEY COMMENTS AND RESPONSES

Annexure A of Circular 32 of the MFMA recommends that the summary of key issues raised by the community, Auditor-General and other spheres in government, be detailed in the Oversight Report. In addition the Circular proposes that responses to questions raised in written representations be captured in the Oversight Report. This section summarises the key questions and comments from the Auditor-General, the Municipality's Audit Committee, the Council the Municipality's Management.

5.1 The Auditor-General Management Letter and Response by Management Systems are not appropriate to facilitate the preparation of quality financial statements resulting in material corrections being recommended as a result of audit findings. Delays were experienced in obtaining information requested and responses to queries resulting in information and responses not being provided within the timeline agreed upon in the engagement letter. Actions are not taken to address risks relating to the achievement of complete and accurate financial reporting and to mitigate the risk resulting in non-compliance with regulatory and reporting requirements. Internal controls were not developed to prevent, detect and correct non-compliance and irregular and fruitless and wasteful expenditure.

Management have not exercised oversight responsibility over financial and performance reporting, compliance with laws and regulations and internal control. There is a lack of processes in place to prevent and detect irregular and fruitless and wasteful expenditure and compliance with laws and regulations. Management have not established an IT governance framework that supports and enables the business, delivers value and improves performance.

## 6. KEY COMMENTS OF THE AUDITCOMMITTEE

In compliance with section 166 of the Local Government Municipal Finance Management Act of 2003 the Audit Committee was established and an Audit Committee Charter was approved.

The committee serves as a link between the Council, departmental heads and internal auditors.The committee reviews the financial reporting as well as the activities of internal audit. The Chairperson of the Audit Committee reports annually to the Council. Operation Clean Audit Report has revealed that more work still need to be done especially on asset management to improved results. The Audit Committee has recommended that the following be implemented:

- Continued reinforcement of the culture of accountability
- The implementation and monitoring of the Audit Action plan

- strengthening of the internal audit capacity of the municipality
- Continued engagement with the Auditor-General.

## 7. KEY COMMENTS BY COUNCIL

It was proposed to Council that meetings be held with the Municipality's Finance Committee to analyse the weaknesses in Operation Clean Audit and determine the manner in which to improve the achievements in that regard.Council expressed the view that Operation Clean Audit will make key successful interventions.

## 8. KEY COMMENTS BY THE ACCOUNTING OFFICER

The Annual Financial Statement of the municipality were submitted to the Auditor General within the prescribed time period. The Annual Financial Statement of were prepared in accordance with the Generally Accepted Accounting Practice and on a going concern basis.

The Big 5 False Bay Municipality exercises oversight through the Office of the Municipal Manager in accordance with, inter alia, MFMA, MSA, Service Delivery Agreements (SDA).

All the quarterly reports were submitted to Council. The thrust of these meetings and reports focused on the monitoring by the Council the service delivery performance as it took place. In instances where there were problems and a lag in service delivery, the committees would introduce the corrective action measures where it was found that there are problems with service delivery by the municipality.

There are no direct policy implications.

## 10. LEGAL AND CONSTITUTIONAL IMPLICATIONS

The 2011/12 Annual Report and Oversight Report have been prepared in compliance with the provisions of the Municipal Systems Act and the Municipal Finance Management Act, and conform to the guidelines in Circular 32 issued by National Treasury.

## 11. FINANCIAL IMPLICATIONS

The Annual Report and Oversight Reports will entail certain costs relating to distribution to stakeholders, community and Councillors for reference, which have been budgeted for in the 2012/13 Budget

## 12. COMMUNICATIONS IMPLICATIONS

The full text of the 2011/12 Annual Report and Oversight Report will be distributed to the MEC: Local Government, National Treasury, the Auditor-General, and Provincial Legislature. The full text will also be published on the Municipal's website.

# STATEMENT OF PURPOSE OF THE OVERSIGHT REPORT

## 13. OTHER DEPARTMENTS CONSULTED

The 2011/12 Annual Report, and Oversight Report were coordinated by the Office of the Municipal Manager, but had the involvement of a wide range of departments, directly or indirectly, including Finance with respect to the financial statements and Cooperative Governance and Traditional Affairs/ Finance/SALGA/APAC with respect to the capacitation of MPACs. MPAC was involved in ensuring that the Annual Report and Oversight report was compliant with the Municipal Systems Act and the Municipal Finance Management Act.

## 14. RECOMMENDATIONS TO COUNCIL

It recommended that:

- the Council, having considered the 20011/12 Annual Report of the Big 5 False bay Municipality as tabled on 31 January 2013, adopts the Oversight Report, in terms of section129 of the Municipal Finance Management Act.
- the Annual Report of the Big 5 False Bay Municipality, be approved without reservations, in terms of Section 129 of the Municipal Finance Management Act.
- the minutes of the meetings where the Annual Report was discussed, in the presence of the accounting officer (Municipal Manager), be submitted to the Auditor-General, Department of Finance and the Department of Co-operative Governance and Traditional Affairs, as attached to the report, in terms of section129(2) of the MFMA.
- the corrective measures spelt out in Paragraph 4 of this report, be implemented.
- the 2011/12 Oversight Report of the Big 5 False bay Municipality be made public in terms of Section 129(3) of the MFMA and be submitted to the Mpumalanga Legislature in terms of Section 132(2) of the MFMA.

# NOTES

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